

NATIONAL AFFORDABLE HOUSING ACT

HEARING
BEFORE THE
SUBCOMMITTEE ON
HOUSING AND URBAN AFFAIRS
OF THE
COMMITTEE ON
BANKING, HOUSING, AND URBAN
AFFAIRS
UNITED STATES SENATE
ONE HUNDRED FIRST CONGRESS

FIRST SESSION

ON

S. 566

TO AUTHORIZE A NEW CORPORATION TO SUPPORT STATE AND LOCAL
STRATEGIES FOR ACHIEVING MORE AFFORDABLE HOUSING; TO IN-
CREASE HOMEOWNERSHIP; AND FOR OTHER PURPOSES

APRIL 20, 1989

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THURSDAY, APRIL 20, 1989

U.S. SENATE,
COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS,
SUBCOMMITTEE ON HOUSING AND URBAN AFFAIRS,
Washington, DC.

The subcommittee met at 10 a.m. in room SD-538 of the Dirksen Senate Office Building, Senator Alan Cranston (presiding).

Present: Senators Cranston, Bryan, D'Amato, and Pressler.

OPENING STATEMENT OF SENATOR CRANSTON

Senator CRANSTON. The committee will come to order. I am very pleased to welcome all of you here this morning.

This is the first hearing on the National Affordable Housing Act, which Senator D'Amato and I introduced on March 15. I am very encouraged by the strong bipartisan support that the bill has already received.

As of this morning, the bill is cosponsored by 37 Senators, well over one-third of the Senate. The bill's introduction culminates a remarkable nationwide consultation on housing policy that expanded over the last two years. Virtually every leading housing organization responded with enthusiasm to the subcommittee's call to revitalize national housing policy.

Each of our three witnesses this morning was an outstanding leader in that effort. Governor Edward DiPrete is the chairman of the National Governors' Association Economic Development Committee, which has responsibility for housing policy. Under his leadership in the State of Rhode Island, he has developed one of the most effective state programs on affordable housing.

My good friend James Rouse is one of the nation's most dedicated and most imaginative and most respected developers. His work in housing for the poor has been an inspiration for the Nation.

David Maxwell, another close friend, is among the country's most knowledgeable and influential housing leaders. He is moving Fannie Mae into exciting new activities in support of low-income housing.

Both of you deserve enormous credit for the historic work that you accomplish as leaders of the National Task Force. The work of the task force guided our work on this legislation.

I am proud of our product. The National Affordable Housing Act incorporates the best of many sound recommendations that were offered during the past two years. The bill provides a strong new framework for Federal housing policy. The new policy is straightforward, so that it can be understood at the national level, and it is

flexible so that it can be tailored to local needs. The bill builds on the imaginative housing initiatives launched by many states and localities in recent years.

The bill will develop strong local partnerships among government, nonprofit organizations, and private industry. It will provide for long-term investment and affordable housing as a long-term national asset. The bill is realistic, in light of tight budgetary constraints, but it will nonetheless stimulate a significant increase in the supply of affordable housing.

Introduction of the bill is an important milestone, but it is a milestone on a difficult road and there is a long way yet to travel before the bill is enacted and an effective housing policy is put in place. We will be working hard to improve the bill as it moves through the legislative process.

Some important elements of the legislation must still be developed. Among them is legislation to preserve our existing stock of housing that is affordable to low- and moderate-income people. I am encouraged by the willingness of housing leaders around the country to help in this effort.

I am heartened by the willingness of HUD Secretary Jack Kemp to work closely with the committee on housing problems. We have already found a constructive working relationship with the Secretary, and it is my hope that we can work with the administration to bring forth a joint legislative product.

This morning's hearing is the first of a series that the Housing Subcommittee will hold on the National Affordable Housing Act. Subsequent hearings will be held during May and June.

I intend to break somewhat with the usual pattern of such hearings, and I will structure most of these hearings as working round-table discussions, with the key issues related to this legislation. I am looking forward to them.

I am determined to keep the National Affordable Housing Act on a fast track. It is my intention to have the bill reported from the committee by the August recess, so that the full committee can pass it during this session of Congress.

The need for this legislation is becoming more urgent every day. The number of the homeless is including a tragic number of homeless families with children, and that continues to grow. Many more families are on the brink of homelessness, only one missed paycheck or one unfortunate accident away from losing their homes. Middle class families are finding their dreams of home ownership drifting beyond reach.

The chain of housing problems affects every part of our society, except the most fortunate among us. The challenge will require determined cooperation of everyone who cares about the quality of housing in America.

I very much value the assistance of our witnesses this morning, and I look forward to hearing your testimony. You will do much to frame debate on the bill and on the effective national housing policy that the country needs.

[Summary of S. 566 follows:]

Senate Housing Subcommittee
March 14, 1989

**NATIONAL AFFORDABLE HOUSING ACT
Summary of the Cranston-D'Amato Bill**

Title I: STATE AND LOCAL HOUSING STRATEGIES

Require each State and locality receiving assistance under this Act or CDBG to submit to the Secretary and annually update a 5-year comprehensive housing affordability strategy.

The housing strategy would be a relatively brief working document that assesses the jurisdiction's needs, indicates how those needs are affected by public policies, and explains what the jurisdiction will do to meet those needs. A strategy would be approved within a specified time period unless the Secretary finds that it does not meet the requirements of the Act.

The housing strategy substitutes for more cumbersome and less useful plans required by current law.

States and localities would be encouraged to coordinate their housing strategies where appropriate.

Title II: HOMEOWNERSHIP

Permit first-time homebuyers and others who have not owned a home in 3 years to use funds in their IRA's or 401(k) retirement plans for investment in a home.

Lower FHA down payments to 3% on the first \$50,000 of the mortgage.

Lower FHA down payments to 3% for the entire mortgage for first-time homebuyers provided such homebuyers complete an approved financial counseling program.

Set FHA mortgage ceiling at 95% of the median sales price for the State, the multi-state metropolitan statistical area, or a substate area that the Secretary determines must be designated to provide moderate-income and middle-income persons with fair access to FHA insurance.

Permit the Secretary to authorize FHA insurance on ARMs with terms that are similar to those of the most widely accepted form of ARM in the market. The Secretary would have to find that the new mortgage does not involve undue default risk, either to FHA or borrowers.

Extend existing authority for the Mortgage Revenue Bond and Mortgage Credit Certificate programs through 1992.

Title III: INVESTMENT IN AFFORDABLE HOUSING

Give State and local government more responsibility to design and implement housing programs.

Provide States and localities with one streamlined institution, the HOME Corporation in HUD, that has both the authority to deliver the various forms of assistance needed to carry out housing strategies and the incentive to help States and localities succeed.

Develop and refine, on an ongoing basis, a selection of model programs that incorporate the most effective methods for providing affordable housing. Accelerate the use of such methods throughout the country where appropriate to achieve prudent and efficient use of federal funds. Permit jurisdictions to adopt, adapt or develop model programs as appropriate.

Housing Opportunity Partnership (HOP). Promote partnerships for affordable housing among State and local government, private industry and nonprofits.

Allocate funds partly by formula (80%), partly by national competition (20%) among participating States and localities (50/50).

Require 25% State or local match. The match would include cash contributions, administrative costs up to 7% of the HOP funds, forgone fees or taxes, or contributions of land. Contributions could be counted toward the match if they go to affordable housing or to a project that includes not less than 50% of units that qualify as affordable housing. That will permit State and local matching funds to be used to provide mixed-income housing.

Require low-income and moderate-income targeting. A jurisdiction would have to apply 40% of its HOP funds to units occupied by very-low-income persons, and 80% of its HOP funds to units occupied by lower income persons. All HOP funds would have to be used for units that qualify as affordable housing.

Each rental project assisted with HOP funds would have to have not less than 20% of its units occupied by very-low-income persons who are paying 30% of their income toward rent. Rents on the affordable units could not exceed the existing fair market rent, making all HOP assisted units available to holders of rental assistance. Mixed-income housing would be encouraged. Housing for home ownership would have to meet income and other targeting requirements that Congress adopted for Nehemiah Housing Opportunity Grants.

A revolving housing investment trust fund would be established for each participating jurisdiction, with a line of credit that the jurisdiction can draw down for investment in affordable housing. Any repayments would return to the jurisdiction's trust fund for its reuse in eligible activities.

Credit Enhancement. Provide guarantees on pools of mortgages on affordable housing. Pools would be formed by States, localities, Fannie Mae, Freddie Mac, Ginnie Mae or other approved financial institution.

Capacity Development. Through contract with existing organizations, provide training and other support to develop local capacity to finance and produce affordable housing, encourage benevolent lending, and establish community development banks.

Title IV: AFFORDABLE RENTAL HOUSING

Preservation. Establish a new Office of Affordable Housing Preservation with responsibility for retaining affordable housing for low-income and moderate-income persons wherever feasible. The Office would be authorized to work with State and local governments to develop strategies to continue low-income

affordability, particularly on federally-assisted housing. Additional incentives to extend low-income affordability will be developed during committee consideration of the Act.

Rental Assistance. Establish one form of rental assistance, "rental credits", combining the best features of Section 8 certificates and vouchers.

Allocate incremental rental credits by formula to states and localities participating in the HOP program. Those States and localities would decide the allocation of rental credits among public housing agencies. Contract administration would continue to be provided by HUD.

Provide a five-year contract term.

Require tenants to pay no more than 30 percent of their adjusted income on rent.

Give a participating State or locality some discretion to make incremental rental credits tenant-based or project-based and to adjust "fair market rents" to local conditions.

Authorize the Secretary to allocate rental credits among three major purposes:

to provide incremental rental credits to assist people not now served;

to renew expiring vouchers and certificates in a way that smooths the required stream of appropriations; and

to preserve low-income housing with project-based assistance to avoid default on federally insured mortgages, to replace public housing units that are sold or demolished, and to continue low-income use on housing that is foreclosed or subject to prepayment.

Low-income Tax Credit. Provide permanent authority for the low-income tax credit. This bill will provide a simple extension of the credit, leaving it to the Mitchell-Danforth bill to propose needed refinements.

Title V: SUPPORTIVE HOUSING

Establish the position of Assistant Secretary for Supportive Housing to administer housing programs serving elderly, handicapped and homeless persons.

For the Elderly. Continue and revise an elderly housing production program (refining the current Section 202).

Provide funding through a combination of interest-free advances and project rental assistance, which would greatly reduce the budget authority required to produce a unit.

Ensure that elderly housing is designed to (1) meet the special physical needs of elderly and frail elderly persons and (2) accommodate the provision of supportive services that are tailored to the needs of elderly and frail elderly persons.

Replace the current fair market rent limitation on development costs with a standard based on local construction costs. This is designed to enable the program to operate in all areas of the country and remove the chief cause for delay in the current program.

Enable sponsors of the 50,000 units in the pipeline to take advantage of the program changes to expedite construction.

Establish a new "Project Retrofit" to enable frail elderly persons residing in federally assisted housing to live with dignity and independence.

Project Retrofit will operate on an incentive basis, making new forms of HUD assistance available only to projects that have already received assurances of supportive service funding from states, localities or other sources.

HUD assistance will include funding to:
(1) retrofit individual dwelling units and renovate public and common areas to meet the special physical needs of frail elderly

persons; (2) create and rehabilitate common areas to accomodate supportive services that enhance independent living; and (3) provide transitional funding for those essential supportive services that cannot otherwise be funded.

For the Handicapped. Separate the elderly housing and handicapped housing production programs.

Focus on production, rehabilitation and acquisition of small group and independent living homes for handicapped persons.

Adopt a program design similar to that of the new elderly housing production program.

Set aside a portion of rental credits to help handicapped persons become integrated into a community's life. Distribute these credits to applicant states and localities that have strategies for providing supportive services to handicapped persons.

For the Homeless. Distribute McKinney homeless funding by formula to States and localities. Give grantees the flexibility to determine how best to allocate resources among approved activities: homelessness prevention, emergency shelter, transitional housing, permanent housing for handicapped homeless persons, supplemental assistance for facilities that assist the homeless and other activities developed in cooperation with states and local government. Continue the Section 8 Single Room Occupancy (SRO) program as a separate program for the homeless administered by the federal government.

Title VI: PUBLIC HOUSING

Reauthorize CIAP modernization program and operating subsidies.

Create a new "Project Independence" to provide public housing residents with greater access to employment, day care, educational and other services.

Project Independence will operate on an incentive basis, making new forms of HUD assistance available only to projects that

have already received assurances of supportive service funding from states, localities or other sources.

HUD assistance will include funding to:
 (1) develop facilities for training and support services in or near public housing;
 and (2) provide transitional funding for those essential training and support services that cannot otherwise be funded.

Revise the public housing construction program to restrict the size of new projects generally to less than 100 units. Permit a greater unit and income mix so that sites for public housing can be found more easily and operating subsidies can be lowered.

Establish a separate public housing development program to provide one-for-one replacement of any public housing units that are demolished or sold to tenants.

Establish a National Commission on Distressed Public Housing to: (1) identify those public housing projects that are in an extreme state of distress, (2) assess the most promising strategies that have been undertaken to improve the conditions of such projects, and (3) provide a national action plan to eliminate unfit living conditions in such projects by the year 2000.

Title VII: RURAL HOUSING

Reauthorize existing FmHA programs, permitting FmHA to serve very-low income families with deferred-payment mortgages under certain conditions.

Set aside FmHA loans for use in communities that have a high concentration of poverty and substandard housing and that have been underserved by FmHA.

Authorize project preparation advances to help non-profit organizations in underserved rural areas prepare affordable housing plans and applications for FmHA assistance.

BUDGETARY IMPACT

The bill is designed to stimulate significant housing activity quickly at relatively low levels of funding and to accommodate significant future funding increases.

For fiscal 1990, it provides funding over the CBO baseline as follows:

\$3.0 billion for the new HOP program as recommended by Rouse-Maxwell

840 million to maintain the commitment of 100,000 incremental units of rental assistance

110 million to fully fund the McKinney Act

That's a total of about \$4.1 billion over the CBO baseline in fiscal 1990. Adjustments for inflation would be provided for fiscal 1991.

The bill would also provide modest but important increases in other areas:

Housing for the elderly would be increased from 7,000 units to 12,000 units.

Housing for the handicapped would be increased from about 2,400 units up to 5,000 units.

Public housing modernization would be increased by about \$185 million, and operating subsidies would increase by \$116 million.

Senator CRANSTON. Larry Pressler has become one of our cosponsors. I am delighted that he is here. Larry, do you have an opening statement?

OPENING STATEMENT OF SENATOR PRESSLER

Senator PRESSLER. Yes, I do. I talked with Senator D'Amato last night. I have become a cosponsor but with the condition that we achieve a reasonable balance between urban and rural areas in this legislation. I know that this bill is just a framework; it is the first step. But I would be fighting hard in these hearings to look after small cities and small towns, in terms of housing rights and housing opportunities.

In no way do I view this as an urban-rural fight, because I know both New York and California have small cities and towns and rural areas. I live in South Dakota, a State where our largest city is 100,000, and we are dimpled with towns of 500 or fewer people, such as my home town of Humbolt, South Dakota. Also, we have a lot of concerns about rural housing, housing on Indian reservations, housing in areas that traditionally are not thought of as a problem.

Let me say that I am very interested in urban housing also, because we have Sioux Falls and Rapid City, which fall under the usual rules for urban housing; but I am interested in helping out New York, California, in addition to rural and small town areas. Indeed, some years ago I helped out when New York City had a desperate financial problem. I think time has proved that was a correct decision. New York City has kept its commitment and has paid its debt, and has gotten back on its feet in a very positive fashion.

We have problems in my State that the Senators from the larger States have helped out with, such as the drought last summer. So we all have to work together on this bill. But my concern—and it may seem a parochial one to some, but I think every State has a lot of housing in this category—in rural housing, small towns, small cities, and rural counties and Indian reservations.

So my line of questioning and my hope will be to add language, if necessary, to the bill that will protect the formulas and the rights of smaller cities and I am not entirely satisfied with the bill in this respect at the present moment, but I look forward to hearing the witnesses.

I thank my colleagues, who are providing excellent leadership on this question.

Senator CRANSTON. Thank you very much, Larry.

I am glad you will be a cosponsor. I never heard of a "conditional cosponsor" before. I am not sure how we do that. We will consider you a cosponsor.

Senator PRESSLER. All right.

Senator CRANSTON. I think what you want is something that Al D'Amato and I and other members of the committee can agree to. We will look at it.

Senator PRESSLER. Yes, indeed. What I am saying is, I want to be very much part of this, and I am going to look after the interests of my State and your States, too, because I am sure that both New

York and California, and I am sure Kansas and Florida, and the State of Texas, all have a lot of variety in terms of the size of cities, and the way in which the States allocate this money, in terms of protecting the interests of small cities and towns.

Senator CRANSTON. Thank you very much. And if, as I do not expect to see develop, you do not like the way we handle the bill, then you can become a noncosponsor, as people in the Soviet Union become nonpersons. [Laughter.]

I am delighted that Senator D'Amato is present, as the principal cosponsor in this measure, my partner. We have done a lot together, and we have a lot more to do together.

Al?

OPENING STATEMENT OF SENATOR D'AMATO

Senator D'AMATO. Mr. Chairman, first of all, let me thank you and commend you and your staff for the leadership that you have provided in bringing us to this point; and our panelists, welcome Governor DiPrete, Mr. Maxwell, and Mr. Rouse; and all of those who have brought this legislation of the National Affordable Housing Act, to the point where we can begin the hearings and eventually reporting this bill to the floor.

I believe that we are going to have continued support, and the groundswell that we see in the public arena, and the demand for affordable housing and for answers to the dilemmas that so many—not only the poor, but working Americans who heretofore have been considered to be people who have no problem as it relates to housing, and yet they find themselves without the opportunity to participate in the American dream as it relates to home ownership—those opportunities are vanishing for millions and millions of young families.

I am delighted that Senator Pressler has added, conditional or not, his prestige and sponsorship to this legislation. Mr. Chairman, I have assured Senator Pressler that, as it relates to the various formulas for distribution, we would work with him to see to it that none of rural America will be disadvantaged as it relates to any of the funding provisions. But indeed, it was our hope, and I know your counsel's, Don Campbell, to see that we have a much more flexible program, and that of the people who have worked to bring us the task force, that rural America, small cities and towns, have greater flexibility than some of the inflexible programs that are written into the code today.

So that, if anything, I think that Senator Pressler, as you and your staff become more and more involved in the fine detail of the legislation, will see that it answers many of the problems and dilemmas that our cities and towns of all sizes have, and that is inflexible programs. They will now have an opportunity to take the dollars, and to mesh them into the needs that they have.

You cannot take a small community and think that it has the same needs that, let's say, an urban center like New York might have; or you cannot take a rural community and believe that it has the same kinds of needs. It should have that kind of flexibility, and certainly no one should be penalized as a result of our undertaking this legislation.

So it is with that spirit that I welcome you, and I certainly want to compliment you for your insight into seeing to it that one of the problems that we have had, which would seem to be looking at just large urban America, should not exacerbate the problems of small towns and rural America.

Mr. Chairman, I am looking forward to the testimony of our witnesses. Again, let me commend you for your leadership in this area and, as we start the hearing out, we had 35 cosponsors, and now we are up to 36.

Senator CRANSTON. Thirty-seven.

Senator D'AMATO. Thirty-seven. And I hope that we will cross that number of 51, and do it in a very bipartisan manner. Let me commend you for your tenacity. This is two years. This is not born of a spirit for one's own political aggrandizement, or running for election; this is born of the spirit of a man, Senator Cranston, our chairman, who recognizes the need and who has been working tenaciously to do something about that.

I am pleased that I have been able to play some small role in working with you, Mr. Chairman.

Senator CRANSTON. Thank you very much, Al. I deeply appreciate that. And you played no small part; you played a big part, and I am deeply grateful for that.

Before we begin I have a statement from Senator Graham.

OPENING STATEMENT OF SENATOR GRAHAM

Senator GRAHAM. Mr. President, the housing bill introduced by my colleagues represents an important consensus on the scope of our housing needs and on the most effective ways for us to meet those needs. I am happy to be a co-sponsor of this important legislation.

The sight of homeless people on our streets is only the tip of an enormous iceberg—the housing crisis in this country encompasses a shortage of affordable housing for those with moderate incomes and a shortage of decent housing for those with low incomes.

Young families are affected. Single parents are affected. Senior citizens are affected. Working people in every age group are affected.

Children, who suffer a disproportionate amount of the poverty in this nation, are growing up without an American birthright—the secure sense of place, of a home, of belonging somewhere.

In my own, rapidly growing State of Florida, we continue to experience all these problems:

The growing number of working homeless;

The long waiting lists for public housing units or apartments in section 202 housing for the elderly;

The frustration of first time homebuyers with limited incomes searching for affordable homes;

The increasing social problems associated with the poor tenant populations of our Federal and State housing projects.

In Florida, our homeless don't freeze to death in the streets in the winter. But their tragic loss of the dignity and sense of well-being which are the rights of every person is a death of another kind.

Each family, each individual who cannot find affordable housing is a needless American tragedy.

The increasing shortage of housing is due to expiring subsidies—the decrease in building housing for low and moderate income families—urban renewal—deterioration of existing public housing—and the slowdown in the rate of home ownership.

This bill—based on the recommendations of a blue-ribbon panel comprised of leaders from the housing and development industries—is innovative and practical.

It takes the best of what has worked in U.S. housing policy—from the Rouse-Maxwell Task Force, from State and local governments—and incorporates those ideas to build a new framework in which to structure sufficient affordable housing.

Each State receiving Federal monies for its housing program will have to submit an annual strategy for housing affordability.

A new Office of Affordable Housing Preservation will give a higher profile to the continuance of threatened existing low income rental housing.

A new position—Assistant Secretary for Supportive Housing will administer the programs serving the elderly, the handicapped and the homeless.

Two new programs: “Project Retrofit” and “Project Independence” will build safety features into elderly housing and provide access to daycare, employment and education to families in public housing.

First time homebuyers will be able to access funds from their IRA accounts for downpayments and FHA downpayments will be lowered.

All these things direct the national attention to improving housing on a broad scale for Americans. That attention is long overdue.

This bill gets us out of the position of handwringing and into the positive state of applying sufficient energy and elbow grease to our housing crisis to begin the process of solving it.

In every area we have allowed crucial needs to go unmet. For example, in Mount Dora, a Florida community near Orlando, one rural homebuilder had 400 applications last year for 5 low income rental units. Low income rural housing is a disgrace—people live without basic plumbing or access to utilities—sometimes in conditions typical of the worst slums in Third World, impoverished nations.

The picture we look at today is a bleak one. But the National Affordable Housing Act will do a lot to reverse our housing crisis and, once again, place decent shelter within the reach of every American.

For that reason, Mr. President, I urge all my colleagues to give the National Affordable Housing Act their full support.

Thank you, Mr. President.

Senator CRANSTON. We will now hear from our first witness, Governor DiPrete. We are delighted you are with us.

STATEMENT OF EDWARD D. DiPRETE, GOVERNOR, STATE OF
RHODE ISLAND

Governor DiPRETE. Thank you, Mr. Chairman. Good morning, Senator D'Amato and Senator Pressler. I certainly appreciate having the opportunity to testify this morning on a subject that we all know has obviously become one of our Nation's most pressing needs, the issue of affordable housing.

Now, as a Governor of a State in which housing affordability has reached a critical level, I want to applaud the measure which is before us today, the National Affordable Housing Act, and I certainly applaud Senators Cranston and D'Amato for their leadership in this area.

The key to solving America's housing crisis, as the Cranston-D'Amato bill recognizes, is home ownership, and a change of housing opportunity. Home ownership must be the strongest link. Where it is not possible, the demand for rental housing pushes rental costs beyond a young family's ability to pay.

At the end of this chain are the homeless, the ultimate victims of our housing crisis. For any civilized society, obviously this is a most unacceptable situation.

While State governments have been very creative in responding to the housing crisis, they have seen the federal role shrinking dramatically over the past few years. Unfortunately, this retreat comes at a time when there has never been a greater need for your assistance. Make no mistake: Housing is a national concern.

As with other concerns of national importance, it is best met when the states and the Federal Government work together as partners, a true partnership which recognizes the abilities and resources that the states have developed throughout the 1980's.

This act does indeed meet that goal. It returns the Federal Government to the role of a full partner. Let me briefly review with you the impact of the housing crisis on families living in my home State of Rhode Island.

During the 1980's, our housing situation changed dramatically. Changing demographics and unprecedented economic growth have led to enormous increases in the price of homes and the cost of rent. The sad reality is that Rhode Island families earning the median family income can no longer afford the median-priced Rhode Island home, which is about \$130,000.

In 1970, almost 70 percent of our State's households could afford to buy a median-priced home. Today, only 25 percent fit into that category. In fact, as you know, for the first time in over 40 years, homeownership rates for young households have fallen throughout the entire country. It would seem that the American dream of home ownership is fast becoming an impossible dream.

During the same time period, my home State of Rhode Island has also seen a dramatic increase in the cost of rental housing. Since 1980, rents have risen by more than 180 percent. Many families—many families—spend far more than 35 percent of their incomes on rent. Low-income families are particularly hard-hit.

The demise of Federal housing production programs, such as section 8, brought construction of affordable rental units virtually to a halt. To make matters worse, we now face the risk of losing cur-

rently subsidized rental housing through mortgage prepayments and section 8 contract terminations. Almost 40 percent of Rhode Island's subsidized units are now in this at-risk category.

As in many other States, a majority of these at-risk units are occupied by senior citizens and those with handicaps. I think we can agree that those citizens are among the least likely to find replacement housing at a price that they can afford.

The Cranston-D'Amato bill takes a number of crucial steps in addressing these affordable housing issues. First, I believe that the proposed changes to the FHA program, by reducing down payments and increasing maximum mortgage levels, will help many more first-time homebuyers.

Second, I believe that many first-time homebuyers who experience difficulty in amassing down payments will benefit from the use of the IRA's or 401(K) funds. In fact, I testified in the past in favor of using IRA's for down payments, and I am pleased to see that this provision is included in the bill.

Third, I am pleased to see the extension of the mortgage revenue bond and the mortgage credit certificate programs through 1992. MRB's have assisted almost 35,000 home buyers in Rhode Island. Last year, we began a mortgage credit certificate program which is being received very, very well. I would respectfully recommend to this committee that we might go a step further, and enact the permanent extension for these two programs.

Fourth, I am enthusiastic about the possibilities afforded by the Housing Opportunity Partnership Program, which appears to be very flexible and to utilize state and local controls very effectively, the key, I believe, to success.

Fifth, to encourage the production of new affordable rental units, the bill authorizes that the current tax credit program be made permanent. I think that is very important. I might suggest that the tax credit program be devised in such a way as to allow for more flexibility. This is of particular importance to States like Rhode Island, where the credits are proven to be insufficient due to local market conditions.

I would also like to respectfully suggest two additional areas by which the National Affordable Housing Act could be strengthened.

The first is expanding the authority of the States to administer the housing programs. States are best able to identify problems in their district market settings, and have a better ability to target scarce resources and to prioritize according to the greatest need. Employing the state-level expertise is an important tenet of the National Governors' Association policy on national housing issues, and one which would help maximize the investment of our citizens in promoting affordable housing.

My second suggestion is to include a provision addressing the critical problem of expiring use restrictions and mortgage prepayments. To meet this need, I strongly urge the committee to reenact and fully fund the preservation strategies included in the Housing and Community Development Act of 1987.

Strong Federal restrictions and incentives, coupled with action at the state level will enable us to reserve much of this existing housing stock.

In conclusion, let me say that I am genuinely excited about this legislation. It restores the Federal Government as a full partner in addressing America's housing crisis. Certainly, I am very mindful of budget realities, and I submit that housing belongs at or very near the top of our national policy agenda.

As a governor, I pledge my support and commitment, if we are serious about building homes rather than shelters, communities rather than places. I respectfully urge careful but expeditious consideration of this outstanding bill. Thank you, Mr. Chairman.

[The complete prepared statement of Governor Edward DiPrete follows:]

THE HONORABLE EDWARD D. DIPRETE
GOVERNOR OF THE STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
TESTIMONY ON THE NATIONAL AFFORDABLE HOUSING ACT (S. 565-6)
SPONSORED BY SENATORS CRANSTON AND D'AMATO
THURSDAY, APRIL 20, 1989

THANK YOU, MR. CHAIRMAN. AS GOVERNOR OF THE STATE OF RHODE ISLAND, I AM VERY HONORED TO HAVE THIS OPPORTUNITY TO TESTIFY BEFORE THE SENATE SUBCOMMITTEE ON HOUSING AND URBAN AFFAIRS.

THROUGHOUT THE UNITED STATES, GOVERNORS HAVE HAD TO TACKLE THE DAY-TO-DAY REALITY OF A LACK OF AFFORDABLE HOUSING. MY TESTIMONY TODAY WILL RELATE THE ISSUES ADDRESSED BY THE NATIONAL AFFORDABLE HOUSING ACT TO THE SITUATION CURRENTLY EXISTING IN MY STATE.

THE HOUSING PROBLEM IN RHODE ISLAND

RHODE ISLAND'S HOUSING SITUATION HAS CHANGED DRAMATICALLY IN THE PAST DECADE. WE ARE FACING ENORMOUS AFFORDABILITY PRESSURES IN BOTH HOMEOWNERSHIP AND RENTAL MARKETS. STRONG DEMAND FROM A CHANGING POPULATION AND STRONG ECONOMIC GROWTH HAVE CAUSED AN UNPRECEDENTED INCREASE IN THE PRICES OF HOMES AND IN THE COST OF RENTAL HOUSING. THOUSANDS OF LOW-INCOME HOUSEHOLDS ARE THREATENED WITH EXPIRING SUBSIDIES FOR THEIR RENTAL UNITS, WHILE OTHERS STRUGGLE TO HANG ON, PAYING EVER-INCREASING PERCENTAGES OF THEIR INCOMES IN THE PRIVATE RENTAL MARKET.

HOUSING PRICES HAVE SOARED IN RHODE ISLAND BUT INCOMES HAVE NOT KEPT PACE. THE SAD REALITY IS THAT FAMILIES EARNING THE MEDIAN RHODE ISLAND FAMILY INCOME CAN NO LONGER AFFORD THE

MEDIAN-PRICED RHODE ISLAND HOME. FOR MANY RHODE ISLANDERS THE DREAM OF HOMEOWNERSHIP HAS BECOME AN IMPOSSIBLE DREAM.

IN 1970, ALMOST SEVENTY PERCENT OF OUR STATE'S HOUSEHOLDS COULD AFFORD TO BUY THE MEDIAN-PRICED HOME. TODAY ONLY TWENTY-FIVE PERCENT CAN DO SO. FOR THE FIRST TIME IN OVER 40 YEARS, HOMEOWNERSHIP RATES FOR YOUNG HOUSEHOLDS HAVE FALLEN DRAMATICALLY ALL AROUND THE COUNTRY, AND RHODE ISLAND IS NO EXCEPTION.

THERE IS ALSO AN INCREASING DEMAND FOR RENTAL HOUSING. THIS DEMAND IS COMING FROM WOULD-BE BUYERS WHO CANNOT AFFORD THE COST OF HOMEOWNERSHIP. IT ALSO RESULTS FROM CHANGING DEMOGRAPHICS, PARTICULARLY THE INCREASING NUMBER OF SMALLER HOUSEHOLDS IN NEED OF RENTAL HOUSING. THIS DEMAND COMES AT A TIME WHEN THE HOUSING SUPPLY IS SHRINKING FROM CONVERSIONS, DEMOLITIONS AND AN INADEQUATE AMOUNT OF NEW CONSTRUCTION.

IN RHODE ISLAND, RENTS ROSE 181 PERCENT BETWEEN 1980 AND 1986, LEAVING MANY FAMILIES SPENDING FAR MORE THAN 35 PERCENT OF THEIR INCOMES ON RENT. LOWER-INCOME FAMILIES ARE PARTICULARLY HARD HIT. THE DEMISE OF FEDERAL HOUSING PRODUCTION PROGRAMS, SUCH AS SECTION 8, BROUGHT CONSTRUCTION OF AFFORDABLE RENTAL UNITS VIRTUALLY TO A HALT. WHILE CONDITIONS HAVE IMPROVED AS STATES HAVE STEPPED FORWARD TO FILL THE GAP, THE RESULTS ARE SMALL COMPARED TO THE NEED.

WE ALSO FACE THE RISK OF LOSING RENTAL HOUSING THAT IS CURRENTLY SUBSIDIZED AND AFFORDABLE TO LOW-INCOME TENANTS. RHODE ISLAND HAS OVER 17,000 SUBSIDIZED RENTAL UNITS, OF WHICH 6,700 ARE AT-RISK BECAUSE OF MORTGAGE PREPAYMENT OPPORTUNITIES OR SECTION 8

CONTRACT TERMINATIONS. AS IN MANY OTHER STATES, THE MAJORITY OF THESE AT-RISK UNITS ARE OCCUPIED BY SENIOR CITIZENS AND THOSE WITH HANDICAPS -- AMONG THE LEAST LIKELY TO FIND REPLACEMENT HOUSING AT A PRICE THEY CAN AFFORD.

OUR SPECIAL NEEDS POPULATIONS, PARTICULARLY THE HOMELESS, HAVE FEW ALTERNATIVES. ELDERLY TENANTS INCREASINGLY HAVE SPECIAL NEEDS THAT MUST BE ADEQUATELY ADDRESSED IF THEY ARE TO REMAIN IN THEIR OWN UNITS AND CONTINUE TO LIVE HIGH-QUALITY, INDEPENDENT LIVES.

RHODE ISLAND'S RESPONSE

DURING THE PAST FOUR YEARS, RHODE ISLAND HAS MOVED TO FILL SOME OF THE GAP LEFT BY THE WITHDRAWAL OF THE FEDERAL GOVERNMENT FROM HOUSING OVER THE PAST DECADE.

RHODE ISLAND HOUSING AND MORTGAGE FINANCE CORPORATION, THE STATE'S HOUSING FINANCE AGENCY, HAS CONTINUED TO PROMOTE THE MORTGAGE REVENUE BOND FINANCED FIRST-TIME HOMEBUYER PROGRAMS, AND HAS MADE IT POSSIBLE FOR LOW-INCOME FAMILIES TO BECOME HOMEOWNERS THROUGH STEPPED INTEREST RATES, DEFERRED SECOND MORTGAGES AND DOWNPAYMENT ASSISTANCE. WITHOUT THIS ADDITIONAL ASSISTANCE, MOST LOW-INCOME BUYERS WOULD BE UNABLE TO PURCHASE A HOME IN THE HIGH-PRICED RHODE ISLAND MARKET.

DURING THE PAST YEAR ALONE OVER 834 RHODE ISLAND HOUSEHOLDS RECEIVED ASSISTANCE TO PURCHASE THEIR FIRST HOME. THE AVERAGE INCOME OF THESE BORROWERS WAS \$30,263.

THE MOST DIFFICULT AREA HAS BEEN PRODUCTION OF NEW RENTAL HOUSING. THE LOW INCOME HOUSING TAX CREDIT HAS BECOME AN

EFFECTIVE TOOL AND COMPLEMENTS THE CORPORATIONS'S SECOND MORTGAGE PROGRAM. IN ADDITION, THE STATE HAS FUNDED A RENTAL SUBSIDY PROGRAM. HOWEVER, AS WE HAVE ALREADY ALLOCATED ALL OF OUR 1989 CREDITS, IT IS CLEAR THAT THE DEMAND AND THE NEED FOR SUCH CREDITS FAR EXCEEDS THE SUPPLY.

THE STATE HAS TAKEN A STRONG ROLE IN ADDRESSING THE ISSUE OF PREPAYMENTS AND EXPIRING USE RESTRICTIONS. LAST YEAR I INTRODUCED, AND THE THE GENERAL ASSEMBLY PASSED, A BILL REQUIRING A TWO-YEAR NOTICE PERIOD IN THE EVENT OF A CHANGE IN USE, AND GAVE TENANTS, THE CORPORATION, PUBLIC HOUSING AUTHORITIES AND LOCAL GOVERNMENTS THE RIGHT OF FIRST REFUSAL IN THE EVENT OF A SALE.

THIS YEAR I INTRODUCED THREE MEASURES TO STRENGTHEN THE STATE'S ABILITY TO PRESERVE THESE UNITS, INCLUDING A BILL TO PROVIDE A STATE INCOME TAX CREDIT TO OWNERS WHO SELL OR DONATE A PROPERTY TO AN ENTITY THAT WILL PRESERVE THE LONG-TERM AFFORDABILITY OF THE UNITS. WE HOPE THAT THESE TOOLS, TOGETHER WITH STRONG FEDERAL ACTION, WILL GIVE US THE ABILITY TO PROTECT THIS VALUABLE RESOURCE.

THE NEED FOR A STRONG FEDERAL ROLE IN HOUSING

DESPITE OUR STATE'S EFFORTS, AND WE ARE PROUD OF OUR ACCOMPLISHMENTS, WE CANNOT DO ENOUGH ON OUR OWN. THE FEDERAL GOVERNMENT MUST RENEW ITS COMMITMENT TO HOUSING BY TAKING BOTH A STRONG LEADERSHIP ROLE AND BY PROVIDING NEW FUNDING. AT THE CORE OF THIS COMMITMENT SHOULD BE A RE-AFFIRMATION OF THE IMPORTANCE OF HOMEOWNERSHIP. NO ONE SHOULD BE DENIED THE OPPORTUNITY OF

HOMEOWNERSHIP REGARDLESS OF HIS OR HER ECONOMIC CIRCUMSTANCES.

IN THE CHAIN OF HOUSING OPPORTUNITY, HOMEOWNERSHIP MUST BE THE STRONGEST LINK. WHERE HOMEOWNERSHIP IS NOT POSSIBLE, THE DEMAND FOR RENTAL HOUSING PUSHES RENTS BEYOND A YOUNG FAMILY'S ABILITY TO PAY. AT THE END OF THIS CHAIN ARE THE HOMELESS WHO ARE INCREASINGLY THE ULTIMATE VICTIMS OF OUR HOUSING CRISIS. FOR ANY CIVILIZED SOCIETY, THIS IS UNACCEPTABLE.

HOWEVER, A RENEWED FEDERAL ROLE MUST NOT OVERLOOK THE ABILITIES AND RESOURCES THAT STATES HAVE DEVELOPED THROUGHOUT THE PAST DECADE; RATHER, THE FEDERAL GOVERNMENT MUST WORK WITH THE STATES AS A PARTNER IN MEETING HOUSING GOALS.

SUPPORT FOR THE CRANSTON - D'AMATO BILL

THE CRANSTON - D'AMATO BILL MAKES GREAT STRIDES IN BRINGING BACK A FEDERAL COMMITMENT TO AFFORDABLE HOUSING. I APPLAUD THE BIPARTISAN ORIGINS OF THIS LANDMARK LEGISLATION.

THE FEDERAL GOVERNMENT HAS A HISTORICAL COMMITMENT TO HOUSING THAT BEARS REPEATING.

"THAT THE GENERAL WELFARE AND SECURITY OF THE NATION AND THE HEALTH AND LIVING STANDARDS OF ITS PEOPLE REQUIRE HOUSING PRODUCTION (TOWARD) THE REALIZATION AS SOON AS FEASIBLE OF A DECENT HOME AND SUITABLE LIVING ENVIRONMENT FOR EVERY AMERICAN FAMILY."

I SUPPORT THE PROPOSED CHANGES TO THE FHA PROGRAM. REDUCING DOWNPAYMENTS TO THREE PERCENT AND INCREASING THE MAXIMUM MORTGAGE AMOUNTS TO A LEVEL OF 95 PERCENT OF THE STATE MEDIAN SALES PRICE

WILL EXTEND THE BENEFITS OF THIS PROGRAM TO MANY MORE RHODE ISLANDERS.

ALSO, MANY FIRST-TIME HOMEBUYERS WHO EXPERIENCE DIFFICULTY IN AMASSING FUNDS FOR DOWNPAYMENTS WILL BENEFIT FROM THE USE OF IRA'S OR 401 (K) FUNDS FOR THIS PURPOSE. LAST YEAR, I PROPOSED AN IRA FOR DOWNPAYMENTS. I AM PLEASED THAT THIS IDEA HAS BEEN INCLUDED IN THE PACKAGE.

THE MORTGAGE REVENUE BOND PROGRAM HAS BEEN AN IMPORTANT PROGRAM THAT HAS PROVIDED ASSISTANCE TO ALMOST 35,000 FIRST-TIME HOMEBUYERS IN RHODE ISLAND. LAST YEAR I ENCOURAGED RHODE ISLAND HOUSING TO BEGIN THE MORTGAGE CREDIT CERTIFICATE PROGRAM, AND IT HAS BEEN WELL RECEIVED. I AM PLEASED THAT THE CRANSTON - D'AMATO BILL RECOGNIZES THE IMPORTANCE OF THESE TWO PROGRAMS AND EXTENDS THEM THROUGH 1992. I PERSONALLY BELIEVE THAT THE EXTENSION SHOULD BE PERMANENT.

INNOVATIVE HOUSING PROGRAMS AND THE STATE'S EXPANDED SKILLS WILL BE WELL SERVED BY THE HOUSING OPPORTUNITY PARTNERSHIP (HOP). THE KEY TO THIS PROGRAM IS ITS FLEXIBILITY AND RELIANCE ON STATE AND LOCAL CONTROL.

PRODUCTION OF NEW, AFFORDABLE RENTAL HOUSING HAS BEEN A DIFFICULT TASK FOR THE STATES SINCE THE TAX REFORM ACT OF 1986. AFTER THREE YEARS, WE HAVE BEEN ABLE TO FIND THE RIGHT COMBINATION OF STATE RESOURCES TO USE THE CREDITS TO PRODUCE WORKABLE DEALS.

IT WOULD BE UNFORTUNATE IF, AFTER THIS LEARNING PERIOD, THE TAX CREDIT PROGRAM WERE ELIMINATED. THE CRANSTON - D'AMATO BILL RECOGNIZES THE NEED FOR THIS PROGRAM AND PROVIDES PERMANENT AUTHORITY FOR IT. THIS IS CRITICAL FOR CONTINUED PRODUCTION OF

RENTAL HOUSING. BUT THE PROGRAM SHOULD ALSO ALLOW MORE FLEXIBILITY -- PARTICULARLY FOR AREAS OF THE COUNTRY LIKE RHODE ISLAND WHERE THE CREDITS ARE INSUFFICIENT DUE TO LOCAL MARKET CONDITIONS.

SUGGESTIONS FOR STRENGTHENING S. 565-6

THERE ARE TWO AREAS IN WHICH THE BILL DOES NOT GO FAR ENOUGH. THE FIRST IS IN DEVELOPING PARTNERSHIPS WITH THE STATES. MOST STATES HAVE GREATLY EXPANDED THEIR CAPACITY TO DEVELOP AND MANAGE HOUSING PROGRAMS, AND WHILE THIS BILL RECOGNIZES THE NEW STRENGTH OF THE STATES, IT DOES NOT GO FAR ENOUGH IN TAKING ADVANTAGE OF THIS NEW CAPACITY.

~~AS~~ FEDERAL RESOURCES FOR HOUSING HAVE DIMINISHED, THE STATES HAVE EXHIBITED AN EVER-EXPANDING WILLINGNESS AND CAPABILITY TO ASSIST IN THE PROVISION OF AFFORDABLE HOUSING.

THE NUMBER OF NEW PROGRAM INITIATIVES IS INDICATIVE OF THE EVOLUTION WITHIN STATES AWAY FROM HOMOGENEOUS APPROACHES OF SERVICE DELIVERY IN FAVOR OF MULTIPLE PROGRAMS THAT MATCH SPECIFIC LOCAL MARKET AREAS OR THE SPECIAL NEEDS OF A UNIQUE POPULATION. THESE NEW INITIATIVES PUT FORTH A PARTNERSHIP APPROACH AMONG THE PUBLIC AND PRIVATE SECTORS, AND AMONG THE VARIOUS LEVELS OF GOVERNMENT.

I CURRENTLY HAVE THE OPPORTUNITY TO SERVE AS CHAIRMAN OF THE NATIONAL GOVERNORS' ASSOCIATION'S COMMITTEE ON ECONOMIC DEVELOPMENT AND TECHNOLOGICAL INNOVATION. THIS IS THE COMMITTEE WHICH HANDLES HOUSING ISSUES WITHIN THE NGA.

THE NATIONAL GOVERNORS' ASSOCIATION HAS CALLED FOR AN EXPANDED STATE ROLE IN IMPLEMENTING ANY NEW AFFORDABLE HOUSING LEGISLATION. STATES ARE IN A MUCH BETTER POSITION TO INTEGRATE SCARCE HOUSING RESOURCES, TO ACHIEVE GREATER PROGRAM AND FUNDING EFFICIENCY AND TO ACHIEVE THE PROPER TARGETING.

FURTHERMORE, STATES ARE OFTEN THE ONLY SOURCE OF NON-FEDERAL ASSISTANCE AVAILABLE TO THOSE MOST IN NEED OF SPECIAL HOUSING SUCH AS HOUSING FOR THE HOMELESS, THE MENTALLY ILL, DEVELOPMENTALLY DISABLED, OR SINGLE PARENT HOUSEHOLDS.

STATES ARE IN THIS UNIQUE POSITION FOR MANY REASONS. THEY CAN IDENTIFY PROBLEMS IN THEIR DISTINCT MARKET SETTINGS, THEY CAN SET PRIORITIES ACROSS THE URBAN-RURAL, HOMEOWNERSHIP-RENTAL SPECTRA, AND THEY CAN CRAFT PROGRAMS MORE RESPONSIVE TO PARTICULAR ECONOMIC AND POLITICAL ENVIRONS.

STATES ARE ALSO FAMILIAR WITH THEIR LOCAL HOUSING DELIVERY SYSTEMS AND HOUSING NEEDS. WE HAVE AN IN-DEPTH APPRECIATION OF THE STRENGTHS AND WEAKNESSES OF INDIVIDUAL MUNICIPALITIES. THIS KNOWLEDGE AND ABILITY TRANSLATES INTO A HIGHER PROBABILITY OF PROGRAMMATIC SUCCESS.

FINALLY, ANY HOUSING EFFORT REQUIRES A COMMITMENT OF FINANCIAL RESOURCES. THE NATIONAL AFFORDABLE HOUSING ACT RECOGNIZES THIS BY CALLING FOR A STATE FUNDING MATCH. STATES REMAIN IN THE BEST POSITION OVERALL TO IDENTIFY AND ALLOCATE THESE FINANCIAL RESOURCES.

MY SECOND MAJOR CONCERN WITH THE BILL IS THAT IT DOES LITTLE TO ADDRESS THE CRITICAL PROBLEM OF EXPIRING USE RESTRICTIONS AND MORTGAGE PREPAYMENTS. ESTABLISHING AN OFFICE OF AFFORDABLE

HOUSING PRESERVATION DOES NOT GO FAR ENOUGH.

I STRONGLY URGE THE COMMITTEE TO RE-ENACT AND FULLY FUND THE PRESERVATION STRATEGIES THAT WERE INCLUDED IN THE HOUSING AND COMMUNITY DEVELOPMENT ACT OF 1987. STRONG FEDERAL RESTRICTIONS AND INCENTIVES, COMPLEMENTED BY ACTION AT THE STATE LEVEL, WILL ENABLE US TO PRESERVE MUCH OF THIS IMPORTANT EXISTING AFFORDABLE HOUSING STOCK.

IN CONCLUSION, I AM EXCITED ABOUT THE POSSIBILITY OF THE FEDERAL GOVERNMENT RE-EMERGING AS A SIGNIFICANT HOUSING RESOURCE. I UNDERSTAND, OF COURSE, THAT ANY ASSISTANCE MUST BE ASSESSED WITHIN THE CONTEXT OF DELIBERATIONS OVER THE FEDERAL DEFICIT.

I SUBMIT, HOWEVER, THAT HOUSING BELONGS AT OR NEAR THE TOP OF ANY NATIONAL POLICY AGENDA. I PLEDGE MY SUPPORT AND COMMITMENT. IF WE ARE SERIOUS ABOUT BUILDING HOMES RATHER THAN SHELTERS, COMMUNITIES INSTEAD OF PLACES, THEN I RESPECTFULLY URGE CAREFUL BUT EXPEDITIOUS CONSIDERATION OF THIS LEGISLATION.

THANK YOU VERY MUCH.

Senator CRANSTON. Thank you very much, Governor. We appreciate your testimony. It is very constructive and very helpful.

Senator Bryan, do you have any opening remarks to make?

Senator BRYAN. Mr. Chairman, I would ask that the statement that I have be incorporated and made a part of the record.

[The complete prepared statement of Senator Bryan follows:]

STATEMENT BY SENATOR RICHARD BRYAN

Senator BRYAN. Mr. Chairman, I am pleased to be here this morning to hear public testimony on this landmark housing legislation. As a new member of this distinguished body, I look forward to participating in the work of this subcommittee. I commend the hard work and diligent efforts of yourself, Mr. Chairman, Mr. D'Amato, and the talented group of housing experts that have diligently worked to write this legislation which provides better, more affordable housing for all Americans.

Homeownership, one component of affordable housing, was simply taken for granted a generation ago. But, today potential first-time homebuyers are in a very different situation and finding it very difficult to purchase their first home. Home prices and rents seem to rise faster than incomes these days. The legislation we'll hear testimony on today should make it easier for families to buy their first home. I strongly support the provision for the provision for the use of funds from retirement accounts to make a down payment on a home. At a time when homeownership has been declining, the number of low-income households that pay more than 50-percent of income for rent has almost doubled—a disturbing trend as the number of low-rent units declines.

Second, the extension of the Mortgage Revenue Bond Program and the Low Income Housing Tax Credit Program is important. The credit has been effective in stimulating private sector production of low income housing. In my home State of Nevada, the Housing Division allocated all but 10 percent of the nonprofit allocation for the construction or rehabilitation of 405 units, totaling \$1,133,795, during the first year of allocation of this program.

Most importantly, this legislation we have before us creates a major role for States in its implementation role. This flexible assistance should encourage States and localities to take the long view of their housing needs and invigorate public-private partnerships in housing production and rehabilitation. It will be important to combine Federal, State, and local resources to ensure feasibility of the program.

The National Affordable Housing Act is a comprehensive and innovative attack on the Nation's housing crisis. I intend to play an active role in perfecting and passing this legislation. I look forward to hearing from our distinguished panelists who played such an integral role in shaping this legislation.

I would commend you and Senator D'Amato for your leadership in drafting this legislation. I am pleased to see my friend and former colleague, Governor DiPrete, and we appreciate the good work that Mr. Rouse and Mr. Maxwell did in their report, which was obviously instrumental in shaping some of the direction taken in this bill. Thank you.

Senator CRANSTON. Thank you very much.

We will now hear from James Rouse, CEO and chairman of the Enterprise Foundation of Columbia, MD. Welcome, Jim.

**STATEMENT OF JAMES W. ROUSE, CHAIRMAN AND CEO, THE
ENTERPRISE FOUNDATION OF COLUMBIA, MD**

Mr. ROUSE. Thank you, Mr. Chairman, and thank you, Senator D'Amato and your many cosponsors of this legislation.

I am here with David Maxwell because we headed the National Housing Task Force, at the request of you and Senator D'Amato, to propose a new housing program to Congress that would deal with the situations we face today.

The task force was a remarkable experience, and a very important one. Twenty-four men and women joined David and me, all with extensive experience in housing—Democrats and Republicans, conservatives and liberals, people well known for differences in their convictions about housing solutions, but who agreed unanimously on the proposals we turned in to this committee a year ago.

That task force engaged in the most intensive study and discussion. It met virtually every week for two days and a night from early October to mid-December. The report itself was drafted by the committee, not by an assigned staff. It was an extraordinary, intensive, concentrated performance, and a report, with which David and I were very pleased.

Over the past year, the proposals of that report have been refined by the superb work of your committee, under the leadership of Don Campbell and the magnificent support of Grace Morgan. The concept papers were prepared and shared with others in the housing field. The legislation improves on the report, and it comes to you now with the most remarkable consensus of support, among people involved in housing, that I believe this committee has ever experienced.

You are more often faced with sharp division among people experienced in the housing field than by the kind of nearly unanimous support that this bill has received. That says something important. It has happened because of the serious, intense, and pervasive concern about housing in America.

I would like to make a personal note: I started in the housing field in 1934, while in night law school, with a job in the Federal Housing Administration. In 1949, by this time in business, I testified before this committee as chairman of the legislative committee of the Mortgage Bankers Association on the Wagner-Ellender-Taft bill. But in the course of those 40 years of involvement in housing legislation, and 55 years in housing in one way or another, I feel that there has not been a bill before Congress with the importance to America of this bill since the original National Housing Act in the middle of the Depression.

This deals with the most pervasive, persistent misery in our country, misery that is simply unacceptable to our society and has our people wrenched with pain. I have never seen housing lifted to such a heightened level of concern among all kinds of people: mayors and politicians, corporate executives, civic groups, church

people. There is a sense of disgrace in America today at the way millions of our poor people are housed or not housed at all.

I have turned in a written statement to detail my support of this legislation. I would like to take my time before you to emphasize the critical importance of the National Affordable Housing Act. Our country is in trouble. Never before, I believe, have men, women, and children—families, walked the streets and roads of America living like stray animals, looking for a place to sleep. This is incredible. One needs to stop and think and feel the shock of this condition in this country.

The homeless crowd our railroad stations, our public places at night. They huddle on every warm grate in the downtowns of our cities. New York estimates 55,000 homeless people every night. The Los Angeles Times has reported that 42,000 people in the Los Angeles area sleep at night in automobiles or garages without running water.

The most shocking data, however, was provided in the report made at the request of Congress by the National Academy of Sciences on the condition of the homeless. That report offered, in a flat, objective, scientific way, tremendously important data. But for one of the few times in the history of the Academy, a majority of the Task Force, which agreed fully with the data, wrote a supplementary report, because they said the report itself did not express the shame and scandal of this situation.

They called attention to some of the disgraceful data, such as: that there are 100,000 children on the streets of America every night. Think of that, 100,000 of our children on the streets tonight. We are raising a new generation of people, uneducated, unskilled, unemployed, unhoused, unwanted, uncommitted to our society or our values as a nation. This is a tremendously dangerous situation. It is a tinderbox into which one can throw a match and have a blow-up of extraordinary consequence.

There is a growing number of people who simply have no reason to care about this Nation, and the homeless are only the most visible expression of much deeper distress.

In a way the homeless are a blessing: They draw attention to the condition of housing for the poor. The homeless are sometimes seen as a pool to be cleaned up, as an emergency to be resolved. There is need—clearly there is need for urgent attention to the suffering of people on the streets; but there is a danger that we will think this is the whole problem and that by providing emergency answers to get the people off the streets, we will sweep the deeper problem under the rug.

The homeless are a stream, not a pool; a stream that flows from millions of people who are paying rents they cannot afford in housing they cannot endure. These are the near-homeless, the next-homeless.

The Academy of Sciences Report included a report that estimated there are 6 million people "at extraordinary risk" because of rent they cannot afford. One setback and they are on the street.

I read a report a few days ago from the United Way of Cincinnati that estimated the increase in the number of homeless in Cincinnati at 26 percent per year. A report on the City of New York puts the increase at 25 percent per year. The New York report said

that 500 people leave the "homeless system" in New York every month, but 600 people join it. Of the 500 who leave, 20% find permanent housing but 80 percent are unaccounted for.

These are conditions in our country. Someone has said that, if you are going to mop up the floor, you first must turn off the faucet. We are not turning off the faucet in our country today; we are trying to mop up the floor with the faucet turned on full force. All that we are doing—and there is a lot being done by many cities, churches, and small organizations and nonprofits around the country—is not even keeping pace with the flow of new homeless from the millions of new families living at the edge—in fear that they may next be on the street.

Over the past ten years, the number of people in poverty has increased from 25 million to 32 million in the United States. In that same period, the number of dwelling units that are available at \$250 a month or less has declined by over 2½ million units. A huge increase in demand, a huge decrease in supply—unbearable increases in the cost of housing, much of it unfit.

This is a crunching, cruel national problem, and it calls for a national solution. The National Housing Task Force report spoke in careful words, carefully written. And it said:

The time has come to raise these conditions to a compelling level of concern to the highest priority of attention and commitment—not just the federal government but of state and local governments, for-profit and non-profit housing developers, businesses, religious institutions, civic groups, and individuals. Housing must not be a partisan issue. It transcends party or faction. This must be a true national program. We must halt the spread of a separated culture, both urban and rural, before continuing deterioration results in severe, and potentially irresolvable, frustration and division.

This legislation attempts to deal with that. It proposes an, entirely new kind of federal program, one that seeks to enable a wide range of local actions. It induces state, city, and private initiatives. It will provide effective federal inducements, not new, big federal programs. That is an important difference.

It is important to note that the HOP program, called for in the bill, allows for and encourages a wide diversity among the states, the cities and the towns. It reinforces and enables the opportunity to solve a lot of our housing problems by effective rehabilitation programs, which are at lower cost, more swiftly accomplished, and which have the advantage of restoring the quality of the neighborhood, as well as the quality of the housing and the quality of the street.

Rehabilitation programs induce a wide range of local initiatives, from sweat equity to local financing. Those initiatives help to create neighborhood organizations, a sense of community which has an ongoing favorable effect on the quality of life in the city.

The country is concerned, highly concerned, about these conditions. It is ready to respond; and, happily, we have a new spirit, a new vigor, a new energy, in the new Secretary of HUD. Jack Kemp wants to move; he wants to activate the resources in this country that are capable of dealing with these problems. He needs this legislation; he also needs an increase in federal funds to make it effective.

He also has a special need that is not in the legislation but is important. It is an increase in his discretionary funds. He comes across hopeful new ideas that deserve a try, new proposals that, with special early support, can become models for other programs in the cities. He should have the opportunity to support these, to help build them. Maybe not other Secretaries, maybe not other HUDs, but this secretary and this HUD deserve the opportunity to use increased discretionary funds to help to stimulate and spread this new wave of action that is moving in America.

We have a brand new opportunity today to support and to explode the capacities of our country in this new wave of action outside the Federal Government. It absolutely must have the leadership of the Federal Government and the initiating funds of the Federal Government. Many hopeful seeds will die out there if they are not nourished by the availability of Federal funds to keep them alive, and to expand them.

I urge the passage of the National Affordable Housing Act with all possible speed. You will have made an enormous start for our country providing fit and affordable housing for all our people. Thank you.

[The complete prepared statement of James Rouse follows:]

JAMES W. ROUSE

TESTIMONY BEFORE THE SENATE HOUSING SUBCOMMITTEE

April 20, 1989

Good morning. My name is James Rouse. I am the chairman and chief executive officer of The Enterprise Foundation, a charitable institution which helps neighborhood-based nonprofit ventures across the country provide fit and affordable housing for very poor people.

The Enterprise Foundation has raised \$45 million from the private sector, is working with 100 nonprofit neighborhood groups in 27 cities and the State of Maine. Through its network of local nonprofit, grassroots groups, 8,500 units of decent housing for very poor people are being provided and 13,000 hard-to-employ people have been placed in jobs through 18 job placement centers. More importantly, it is developing new systems for helping poor people help themselves move up out of poverty and dependence into fit and affordable housing and self-sufficiency. Our purpose is not to work at the problem, but to solve it--to see that all poor people in this country have decent, affordable housing within a generation.

Mr. Chairman, thank you for inviting me to again appear before this committee and share my thoughts with you. Your exemplary leadership, Mr. Chairman, along with that of the distinguished ranking member, Senator D'Amato, in shaping a new national housing policy is indeed most heartening. The efforts of your staff under Don Campbell's guidance and the work of Grace Morgan of Senator D'Amato's staff deserve special recognition for their dedication and thoughtful work.

Let me also extend my heartfelt congratulations on your recent introduction of the National Affordable Housing Act with 35 co-sponsors from both sides of the aisle. This continued cooperative spirit is essential if the country is to meet the most basic housing needs of all of our citizens and eradicate the tragedy of homelessness. The issue of decent, affordable housing is neither Democratic nor Republican, but rather a test of the Congress to respond to a critical national need.

It is my sincere hope to return to this committee within a few years and report to you that the structure conceived by the National Affordable Housing Act is working and initial steps have been taken to house all Americans. Some may tell us that this is an impractical vision. I think not. For if we hold up images of what ought to be, we can reach beyond the critical conditions in our society today. And the solutions put forth in this landmark legislation can be the initiative for a new housing delivery system for the nation.

National Housing Task Force Report

One year ago, the National Housing Task Force issued its report in response to the call from you and Senator D'Amato to propose a new national housing program. It was my privilege, along with David Maxwell as vice chairman, to lead that Task Force. The nonpartisan Task Force, a talented and experienced group of 26 men and women drawn from all facets of the housing industry--business, banking, community service, and state and local government--worked tirelessly over the course of six months to produce a report that was warmly greeted.

The task force was assisted in its work by more than 70 position papers from business and professional organizations, a series of 20 special studies prepared by scholars and practitioners under the direction of Professors Langley Keyes and Denise DiPasquale of the Massachusetts Institute of Technology, and numerous specialists who shared their time and expertise with the Task Force. Our work was also aided by review and comments from the special 40-member National Housing Policy Advisory Panel co-chaired by Leland Brendsel, president and CEO of Freddie Mac and Ira Gribbin, president of the National Association of Realtors.

As the Task Force explored the conditions and searched for answers, all members agreed that we could not tolerate the suffering to

which more and more of our people are consigned and that as a nation, we must find solutions. Included in the Task Force report was our Call to Action:

The time has come to raise these conditions to a compelling level of concern—to the highest priority of attention and commitment—not just federal government but of state and local governments, for-profit and nonprofit housing developers, businesses, religious institutions, civic groups, and individuals. Housing must not be a partisan issue; it transcends party or faction. This must be a true national program. We must halt the spread of a separated culture, both urban and rural before continuing deterioration results in severe, and potentially irresolvable, frustration and division.

There is, one year later, a heightened national awareness and increasing will to rebuild our social institutions and poor communities before they explode in despair. We are encouraged by the refreshing new spirit in the Administration. President Bush and Secretary Kemp each assert that the poor must be housed. They rate the problem serious and difficult.

Secretary Kemp is bringing a new force and vigor to HUD and reaching out to the private sector to energize a truly public-private partnership to provide new initiatives. And we remain hopeful and inspired by individual Americans who are banding together in voluntary action in their communities and reclaiming them. All across the nation, there are dedicated, persevering neighborhood groups who must be a part of the solution. These are strengths we must build on.

But sadly, I must report to you that the conditions of the poor and homeless in our society continue to worsen. The National Academy of Sciences reported to Congress an estimate of 100,000 children on the streets and roads of America each night looking for a place to sleep.....living like stray animals. In its deliberations, the Task Force was struck by the deplorable and unacceptable trends revealed by examining the available data. Updated, new data based on the HUD 1985 American Housing Survey shows that conditions are worse, and the very poor in our country face an unrelenting shortage of livable and affordable housing:

- o *Nearly half of all renters making \$5,000 or less, pay at least 70% of their income for housing costs, that is more than 3 million households.*
- o *A growing number of poor households compete for a shrinking number of low cost units. In 1985, there were 3.7 million fewer units renting for \$250 a month or less than there were households making \$10,000 or less which needed them.*

- o *The typical poor homeowner, like the typical poor renter family, faces intolerable housing costs--averaging 47% of income.*

It is an astounding fact, but as grim as these numbers are, they do not cover most of those who are homeless.

Our Task Force report found a continuum of housing difficulties, from the poorest group right through moderate income individuals. This is not surprising given the fact that almost a third of all households in this country earned less than \$15,000 and a quarter of all full-time jobs, 24 million positions, do not pay enough to raise a family of four above the poverty line.

The Task Force resolved that this, one of the wealthiest nations in the world, with its exceptional problem-solving capability, should be able to match our resources with our deep concern for the dignity and well-being of our people. It issued a series of recommendations in its unanimously adopted report to you. It is clear in reading the National

Affordable Housing Act that the spirit of the Task Force recommendations has been embraced and that most of its proposals have been included; in some cases, refined and improved.

The Task Force found that this nation has at hand the knowledge, skill and determination to provide decent housing affordable to low and moderate income households. This capacity needs pivotal leadership and funding from the federal government in partnership with state and local governments, the private sector, and community groups to nurture the promising "new wave" of local initiatives and resourcefulness.

The Task Force also believes that government closest to the people is best situated to identify and respond to the varying conditions and needs of local housing markets. A key principle advanced by the Task Force was that state and local governments must provide new non-federal funds in return for additional federal investment and that housing assistance must increasingly be directed to those most in need, especially for dedicated low-income use. Nothing less than a new *comprehensive* national housing policy accommodating a diversity of needs and advancing new partnerships, new institutions to implement creative solutions could do the job, the Task Force concluded.

The National Affordable Housing Act

Clearly, the National Affordable Housing Act embraces the principle for asserting a vigorous federal leadership role by calling on Congress to affirm *"the national goal that every American family be able to afford a decent home in a suitable environment."* The bill encompasses a comprehensive range of housing needs--affordable homeownership and rental housing, low-income public housing, rural housing, and special needs housing, including homeless assistance--that is essential if we are to flexibly address needs within specific local markets.

Funding Level

Much will be said about the appropriate level of federal funding. The Task Force realized the enormity of the country's housing need, yet also the severity of the national deficit. But the funding levels proposed by the Task Force and the National Affordable Housing Act are realistic given these competing demands. This legislation should be recognized as a first step which can unleash a forceful response by states, localities, and the private sector. The return will be many times the amount invested by the federal government.

Too little initiative by Congress will not begin to stimulate the response that is absolutely necessary to rid the country of homelessness and a crushing burden on poor wage earners. What is proposed must also be mindful of another burden on the country, an intolerable deficit, however generated.

The National Affordable Housing Act should be viewed as the first step of a sound and well-crafted response to this country's housing needs.

HOME Corporation

The creation of the Government National HOME Corporation within HUD to provide participating states and localities with one institution through which new partnerships can be formed, new solutions developed, and federal funds channeled is a move in the right direction. Ultimate responsibility for HOME is vested with the HUD Secretary, who can use this new institution to leverage federal investment, guarantee programs and federal assistance through state, local and private sector initiatives.

Housing Opportunities Program

We are gratified to see a highly targeted, flexible Housing Opportunities Program (HOP) as an integral part of the HOME Corporation. At the heart of the Task Force report is a new program that we too called HOP. The Task Force invested hours of earnest debate in designing its HOP recommendations which are based on three important precepts:

- o each incentive dollars of federal funds must be matched by one dollar of additional funds from state, local, and private resources,
- o funding must be targeted to those in greatest need, and
- o the greatest possible flexibility and choice must be allowed to local and state governments to encourage creativity and initiative in developing local solutions.

The specific HOP matching and income targeting requirements in the bill, while differing in some details from the Task Force HOP recommendations, achieve its principles and in some cases present interesting variations reflecting thoughtful refinements and additional flexibility.

Establishing local "Housing Investment Trusts" for directing federal funds to states and localities is a workable mechanism. Allowing participating jurisdictions to retain paybacks to their Trusts will encourage recycling and additional leveraging of federal funds.

Requiring states and localities to prepare and submit comprehensive housing affordability strategies as a condition for federal investment is both sensible and necessary. Although certain elements of the affordability strategies may need refinement so as to not be overly burdensome, the bill demonstrates a thoughtful planning approach injecting new ways of thinking about drawing in all possible partners and additional private resources.

The Task Force strongly endorsed and the bill includes a ten percent set-aside of HOP funds to encourage private, nonprofit community-based housing developers. Part of the "new wave" of local initiatives, nonprofit neighborhood groups offer great promise and possess increasingly sophisticated skills to produce affordable housing.

Their inventiveness and responsiveness is limited only by the availability of sufficient low-cost financing and subsidies. In spite of diminishing resources, a survey conducted by the National Congress of Community Economic Development shows that the number of low-income units built by nonprofit community-based organizations between 1986 and 1987 exceeded all the new public housing units funded by HUD between 1986-88.

We remain concerned about the lack of eligibility for any rehabilitation less than moderate. In Baltimore, Chattanooga, Dallas, and elsewhere, we are very successful in intervening in the deterioration cycle of privately-owned slum properties occupied by low-income families. Through opportunistic acquisition by nonprofits and minor rehabilitation, we can preserve this valuable housing resource for comparatively little cost.

Benevolent Loan Funds

I would like to specifically note that Subtitle C of the bill, Other Support for State and Local Housing Strategies, includes eligibility for two capacity-building mechanisms that the Task Force determined to be particularly promising: benevolent loan funds and community development banks.

The Task Force report points out that with very modest federal start-up and "stand-by" support, as much as \$2 billion per year of *new* charitably motivated, private funds may be brought into financing housing for poor families at rates as low as 5 1/2% to 6%. To support the development of these resources under Subtitle C, we would suggest that the eligible uses section in the HOP title specifically include capitalizing community development banks and providing stand-by support for benevolent loan funds.

Homeownership

The homeownership provisions generally reflect the Task Force's recommendations that called for easing downpayment requirements for first-time buyers, allowing IRAs, 401(k), and other self-funded benefit plan monies to be used for downpayments, and extending mortgage revenue bond authority. We heartily endorse these proposals.

Preservation

A massive challenge faces us in preserving the existing stock of affordable dwelling units. As this committee is well aware, thousands of units may be lost to use by low-income people over the next few years as subsidy contracts expire and owners can begin to exercise opt-out provisions.

In formulating its preservation recommendations, the Task Force deferred to two high level commissions undertaking detailed studies of the federally-subsidized private stock and urged that the federal government be prepared to renew project-based and tenant-based subsidy contracts.

The Affordable Housing Act proposes creation of an Office of Affordable Housing Preservation within HUD to devise strategies to forestall the loss of the federally subsidized private inventory. Along with an initiative calling for HUD to contract with nonprofits to help maintain affordability and work with tenants, these are important beginning steps in formulating a broader preservation strategy.

For preservation of the millions of affordable private market units--home to the vast majority of the poor--the Task Force would rely on HOP to provide the least subsidy needed to ensure continued availability to low-income people. The Task Force felt strongly that the existing federally subsidized units represented a federal investment and obligation that should not be put on the shoulders of state and local governments without a new and *separate* source of funding other than HOP.

Rental Assistance

The bill's recommendations regarding Rental Credits, combining the most workable features of both Section 8 certificates and vouchers, are inherently practical and will allow states and localities the flexibility necessary to direct resources in line with their own needs, situations and programs.

Public Housing

The Task Force was deeply concerned about the nation's most valuable low-income housing resource--public housing--and made a series of substantive recommendations regarding the need for modernization, resident involvement, and special help in remedying the most seriously troubled projects. No doubt these proposals will and should be widely and seriously debated. The call for a National Commission on Severely Distressed Public Housing to develop a national action plan to eliminate unfit living conditions in severely distressed projects is a good step.

Programs like "Project Independence" which encourage and assist public housing residents in becoming more self-sufficient are important demonstrations.

Special Needs

The Task Force strongly urged attention to the immediate needs of the homeless and encouraged specific recognition of special populations, such as the elderly and handicapped. The bill's proposals for supportive housing for the elderly, handicapped and homeless are well in line with the spirit of the Task Force. The flexible block grant program to replace five categorical programs is also within the concepts the Task Force proposed.

Rural Housing

We are pleased to see the addition of proposals in the legislation reflecting the Task Force's concern for rural housing and addressing its special needs through the existing framework of Farmers Home programs.

Tax Policy

Finally, last but not least, we must mention the importance of the federal tax code in producing affordable housing. We urge this committee to coordinate policy with the Finance Committee regarding

extension of the federal low-income tax credits and improvements recommended by the Mitchell-Danforth Task Force. In particular, the HOP rental housing project targeting and qualifying rents should be compatible.

Extending the mortgage revenue bond and low-income housing tax credit programs were key recommendations of the Task Force. These two tax policies taken together will foster new private developer interest in providing low-income housing. The tax incentives in these programs are well targeted and reach families at 60% of median income and below.

The low-income housing tax credit, from a slow start, is now the major low-income housing rehabilitation program in the country. Enterprise's own experience finds that the program is used to rehabilitate vacant units in poor neighborhoods and is a primary tool of neighborhood-based revitalization. Improvements, as proposed in the Mitchell-Danforth Task Force, will make this tool ever more valuable to draw in private sector capital, interest and financing. It is an important bridge in the new partnerships needed to restore communities.

Summary

Mr. Chairman, we are encouraged and grateful for the opportunity to participate and share our ideas in shaping this important new initiative.

A year ago, the Task Force issued its Call to Action and its message has been taken to heart. Today, it is time to issue a Call for Enactment so that the programs in the National Affordable Housing Act can be commenced rapidly and carried forward vigorously. We know the enormity of the task before us. We need to find the solutions.

The National Affordable Housing Act is an excellent first step toward our goal. Each action we take from here must truly propel us toward achieving a decent, affordable, and permanent home for each and every American. Thank you.

Additional Remarks _

JAMES W. ROUSE
CHAIRMAN AND CHIEF EXECUTIVE OFFICER
THE ENTERPRISE FOUNDATION

April 20, 1989

Let me also comment about another issue before the Senate at this very moment, the need to address affordable housing within the multi-billion Financial Institutions Reform Bill. If the Senate does not address the important credit needs in inner city neighborhoods, productive local partnerships between lending institutions and the communities in which they operate will be foregone.

An essential principle in reforming the thrift system is to make sure that it continues its responsibilities to provide credit to communities in need. Another crucial aspect of this legislation involves properties in the FSLIC inventory, some 200,000 or more multi-family units and an unknown number of single-family homes, are primarily located in economically depressed areas. These homes are a ready source of low-cost housing that, five years from now when economic recovery is likely, will be lost unless the opportunity to preserve affordability is seized now.

Failure to act will ultimately cost the federal government in the end. At this time, a reasonable balance can be struck between preserving this low-cost housing for low-income people without compromising the primary fiscal objectives of financial industry reform.

I urge you to look carefully at the inherent and crucial housing needs within the financial institutions reform issue.

Senator CRANSTON. Thank you very much, Jim. I cannot think of finer testimony I have heard on any subject before Congress. I know it comes from your heart, from your head, from your great knowledge and your great experience. It is an inspiration, and will be very, very helpful in this process that we are now embarking upon.

We will now hear from David Maxwell, who also has contributed so very, very much in this effort.

**STATEMENT OF DAVID O. MAXWELL, CHAIRMAN AND CEO,
FEDERAL NATIONAL MORTGAGE ASSOCIATION**

Mr. MAXWELL. Thank you, Mr. Chairman, for inviting me to appear today. Anyone who knows Jim Rouse knows that I was lucky to have the privilege of serving as the vice chairman of the National Housing Task Force under his inspiring leadership. It is an experience that I will never forget, and am very grateful for having had.

I might say that, Senator Bryan, I recall that the first meeting we had of the task force was in the Capitol Building, which Senators Cranston and D'Amato were kind enough to arrange for us to use, and we had a little reception afterward—I think this was in the fall of 1987. You were then the Governor of Nevada. You showed your interest in our work way back then by attending that reception and asking a lot of very searching questions about the work we were going to do. We appreciated that support.

This legislation marks the culmination of an enormous amount of hard work by your subcommittee and by your able staff. I do want to second what Jim Rouse had to say about the work of Don Campbell and Grace Morgan, which has been extraordinary.

The introduction of S. 565 and S. 566, the National Affordable Housing Act, and the quick follow-up through these hearings marks tremendous progress in the effort to revitalize national housing policy. Senator Cranston and Senator D'Amato have been stalwart leaders in building an impressive consensus on the need to restore housing issues to a high priority on the national agenda.

It is also highly gratifying that 37 Senators of both parties have joined as sponsors of these bills. Together with an actively concerned HUD, led by Jack Kemp, these bills indicate that the chance of success in meeting the nation's housing needs is beginning to approach the magnitude of the problem.

In my oral statement I will comment on the rightness of housing claiming renewed national attention, and on the major background forces that have helped shape these bills. My written statement, submitted for the record, contains a detailed discussion of many of the provisions of the bills.

Our most pressing housing problems are also our most obvious ones. Frequently discussed in the press and dramatically pictured on television, they are, first, the plight of the homeless, about which Jim Rouse has spoken so eloquently this morning. The homeless include among their number many entire families with children, and many who are working at jobs that pay the minimum wage or only slightly more.

Second, the paradoxical existence of long-vacant, neglected and deteriorating units in low-rent public housing, while about 1 million families are on the waiting list for admission.

Third, the terrorism and despair that characterize life in some high-rise, publicly financed projects that are in the grip of drug dealers and other violent criminals.

Fourth, most dramatic by far, the widespread problem of people of low and moderate income who stint on food and medical care because they cannot find decent rental housing that they can truly afford.

This last problem will be exacerbated by the expiration of many contractual arrangements that require units that are federally assisted in privately owned rental housing to be reserved for low-income occupants.

These are the social evils and disparities, with yet one more, that fully justify the urgent attention of Federal, State, and local governments. The additional disparity is a significant drop during the last decade or so, the first drop in generations, in the percentage of home ownership among all American households and in all age groups except the elderly.

The steepest decline, from 52.2 to 45.1 percent, from 1976 to 1987, was in the 25-to-34-year-old age group, whose members have been in the past especially likely to become first-time homebuyers. It is of real concern that the highly valued goal of homeownership is less attainable by so many of our young families today than it was by their parents and older siblings.

Home ownership is not only tenure, it is a way of life. Community stability and a sense of neighborhood are corollaries of home ownership that are important both for individuals and for our nation.

The National Housing Task Force found that all of the housing problems I have mentioned are rooted in two common factors: Escalating housing costs, and the failure of American incomes to keep pace with these increases.

The housing market is a continuum. The problems of the poor seeking minimally decent, affordable rental housing with or without public subsidies are closely linked to problems of affordability of higher-cost rental and sales housing, both old and new.

When renters who want to buy homes cannot, the reverberations are felt all along the income scale, as decent rental housing becomes both less available and less affordable. At the bottom of the income scale are the losers in this tragic game of musical chairs: the homeless.

The linked set of housing problems that now faces the 101st Congress is different in kind from the housing problems that confronted the 75th and the 81st Congresses which, in 1937 and 1949, pioneered in providing deep subsidies per unit for low-rent public housing; and from the problems that confronted the 89th and 90th Congresses which in 1965 and 1968 pioneered and channeled deep subsidies for rental and sales housing to private landlords, lenders, and builders.

Those Congresses authorized deep subsidies to meet real shortages of minimally decent housing; to increase opportunities for employment in the home building and related industries for the job-

less during the Depression of the 1930's, and for returning veterans and laid-off war workers after World War II; and later, to combat recessions and replace units destroyed through slum clearance, urban renewal, and functional obsolescence.

Today's housing problems, while large in scale, are less universal in form. A significant portion of the problem is now affordability, rather than supply. But for many households, particularly large families and those in need of special housing-based services, and in some locations, supply is still a serious issue.

Federal leadership such as that supplied by Senators Cranston and D'Amato in this subcommittee, by Chairman Gonzalez, and by Secretary Kemp, is essential. But the insights, creativity, and vitality of locally based partnerships are the keys to long-term implementation of a housing policy that succeeds.

The legislation before you has been shaped by these forces, as well as by a keen awareness of the pressure of the Federal budget deficit. The National Affordable Housing Act is therefore predicated largely on the use of Federal funds as the lever and catalyst for participation by State and local governments, nonprofit organizations, and private firms like Fannie Mae, in meeting our housing needs.

To me, the bill's centerpiece is the HOME Corporation, which will be responsible for the Housing Opportunity Partnership program. For the first time, HUD will have a component devoted entirely to helping states and localities and their private and nonprofit partners meet their needs as they define them.

The legislation wisely vests ultimate authority for HOME in the HUD Secretary, who can command the cooperation with HOME of HUD's other offices. If credit enhancement through the secondary market is called for, HOME can work with and through not only Ginnie Mae but also Fannie Mae and Freddie Mac. In short, HOME is an extremely creative and exciting and nonduplicative concept, one that I strongly urge this committee to support.

It was the goal of our task force, and I know it is the subcommittee's goal, that decent housing be brought within the reach of every American family by the century's end. It is encouraging to note that all of the aspects of the housing affordability problem are dealt with in these bills, and valid distinctions are made between short-range and long-range measures appropriate for meeting our goals.

Two examples of the many that could be cited should suffice to illustrate this point. To the problems of first-time home buyers, the bills respond in a variety of ways, including encouraging localities through HOP to fully consider the homeownership option, modifying the FHA program, authorizing use of funds in IRA and 401(k) accounts for down payments, and extending to 1992 the mortgage revenue bond program.

For all lower-income families, the legislation takes the essential step of making permanent the low income housing tax credit. My written statement includes a number of examples of how this tool is being used to make housing available for some of our poor citizens.

Permanent enactment this year, together with modifications to simplify the program, as set forth by the task force organized by

Senators Mitchell and Danforth, is essential if we are to continue efficiently to attract private funds to low-income housing.

I might say, Mr. Chairman, that Fannie Mae has passed the \$100 million mark in our investments in these low income tax credits, many of them because of the leadership of the Enterprise Foundation that Jim Rouse heads, and also LISC.

One of the projects, as Governor DiPrete knows, is in Newport, RI. The 50 Washington Square project is a very creative undertaking by the State and the local communities in Rhode Island for the homeless and for low-income families. We are very proud to be part of that.

This ends my oral statement, except for one comment prompted by recent news items. I was pleased to read that Secretary Kemp has moved to enable local public housing authorities to speed the eviction of drug dealers. There is no good reason, except possibly a lack of administrative funds, why such evictions cannot be accomplished with all due speed and without depriving persons proposed to be evicted of fair hearings and other elements of due process. If funds are needed for hearing officers and other personnel involved in the eviction process, they should be provided. I cannot think of many more useful ways in which to spend public funds in the public interest.

Thank you for the opportunity to be heard.

Senator CRANSTON. Thank you, David, for very constructive, very wise testimony.

[The complete prepared statement of David O. Maxwell follows:]

STATEMENT OF DAVID O. MAXWELL

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Mr. Chairman and Members of the Subcommittee:

My name is David O. Maxwell. I am Chairman and Chief Executive Officer of the Federal National Mortgage Association, better known as Fannie Mae.

Fannie Mae is a privately-owned corporation with a public mandate to support housing for low-, moderate- and middle-income Americans. As its federal charter directs, Fannie Mae operates only in the secondary market in home mortgages for single-family and multifamily loans. As a trade off for this business restriction, the government maintains certain ties with the corporation that allow it to borrow at reduced cost. Fannie Mae passes its cost savings on to lenders and consumers in the form of lower interest rates on mortgages eligible for purchase or securitization by it and in the form of special efforts to serve the housing credit needs of low- and moderate-income families.

From the fall of 1987 through April of last year I also served as vice-chairman of the National Housing Task Force, a privately funded project under the leadership of James Rouse. This 26 member Task Force was formed at the request of Senators Alan Cranston and Alphonse D'Amato as part of their examination of our country's housing policies.

I appreciate the opportunity to appear here today to discuss legislation which marks the culmination of so much hard work by your Subcommittee. The introduction on March 15 of S.565 and S.566, the "National Affordable Housing Act", and the quick follow-up through these hearings mark tremendous progress in the effort to revitalize national housing policy. Senators Cranston and D'Amato have been leaders in building an impressive consensus on the need to restore housing issues to a high priority on the national agenda. It is also gratifying that many Senators of both parties have joined as sponsors of these bills. Together with an active, concerned HUD led by Jack Kemp, these bills indicate that the chance of success in meeting the nation's housing needs is beginning to approach the magnitude of the problem.

Our most pressing housing problems are also our most obvious ones, frequently discussed in the press and dramatically pictured on television. They are (1) the plight of the homeless, who include among their number many entire families and children and many who are working at jobs that pay the minimum wage or only slightly more; (2) the paradoxical existence of long-vacant, neglected and deteriorating units in low-rent public housing while about a million families are on the waiting lists for admission; (3) the terrorism and despair that characterize life in some high-rise publicly financed projects that are in the grip of drug dealers and other violent criminals; and (4) the less dramatic but far more widespread plight of people of low and moderate income who stint on food and medical care because they cannot find decent private rental housing they can truly afford. This last problem will be exacerbated with the scheduled expiration of many

contractual arrangements which now require units in federally-assisted, privately-owned, rental housing to be reserved for low and moderate income occupants.

These are the social evils and disparities -- along with yet one more -- that fully justify the urgent attention of federal, state and local governments. The additional disparity is a small but significant drop during the last decade or so -- the first such drop in generations -- in the percentage of home ownership among all American households and in all age groups. The steepest decline (from 52.2 to 45.1 percent from 1976 to 1987) was in the 25 to 34 year old age group, whose members have been in the past especially likely to become first-time home buyers. It is of real concern that the highly valued goal of home ownership is less attainable by so many of our young families today than it was by their parents and older siblings. For homeownership is not only a tenure -- it is a way of life. Community stability and a sense of neighborhood are corollaries of homeownership that are important both for individuals and our nation.

The National Housing Task Force found that all of the housing problems I have mentioned are rooted in two common factors: escalating housing costs and the failure of American incomes to keep pace with these increases. The housing market is a continuum. The problems of the poor who seek minimally decent, affordable, rental housing, with or without public subsidies, are closely linked to problems of affordability of higher cost rental and sales housing, both old and new. When renters who want to buy homes cannot, the reverberations are felt all along the income scale, as decent rental housing becomes both less available and less affordable. At the bottom of the income scale are the losers in this tragic game of musical chairs, the homeless.

The linked set of housing problems which now faces the 101st Congress is different in kind from the housing problems that confronted the 75th and 81st Congresses which, in 1937 and 1949, pioneered in providing deep subsidies per unit for low-rent public housing and the problems that confronted the 89th and 90th Congresses which, in 1965 and 1968, pioneered in channeling deep subsidies for rental and sales housing through private landlords, lenders and builders.

Those Congresses authorized deep subsidies to meet real shortages of minimally decent housing; to increase opportunities for employment in the homebuilding and related industries for the jobless during the depression of the 1930's and for returning veterans and laid-off war workers after World War II; and later to combat recessions and to replace units destroyed through slum clearance, urban renewal and functional obsolescence.

Census data indicate that in 1940, 46.6 percent of American households lived in substandard housing, much of it dilapidated or lacking in some plumbing facilities; that 9 percent of all housing units were crowded (with more than 1.5 persons per room); and that

6.8 percent of all families shared their housing with another family. By 1970 these percentages had dropped, respectively, to 7.4 percent, 2 percent and 1.5 percent. It is not mere coincidence that the 1968 housing law emphasized deep production subsidies and the 1974 law emphasized cash payments to renters.

Today's housing problems, while large in scale, are less universal in form. A significant portion of the problem is now affordability, rather than supply. But for many households, particularly large families and those in need of special housing-based services, and in some locations, supply is still a serious issue. Federal leadership -- such as that supplied by your subcommittee, Chairman Gonzalez and Secretary Kemp -- is essential. But the insights, creativity and vitality of locally-based partnerships are the keys to long-term implementation of a housing policy that succeeds. The legislation before you has been shaped by these forces as well as by a keen awareness of the pressure of the federal budget deficit.

The National Affordable Housing Act therefore is predicated largely on the use of federal funds as the lever and catalyst for participation by state and local governments, non-profit organizations, and private firms like Fannie Mae in meeting our country's housing needs. To me, the bill's centerpiece is the HOME Corporation, which will be responsible for the Housing Opportunity Partnership program (HOP). For the first time, HUD will have a component devoted entirely to helping states and localities, and their private and non-profit partners, meet their needs as they define them.

The legislation wisely vests ultimate authority for HOME in the HUD Secretary, who can command the cooperation with HOME of HUD's other offices. If credit enhancement through the secondary market is called for, HOME can work with and through not only Ginnie Mae, but also Fannie Mae and Freddie Mac. In short, HOME is an extremely creative and exciting, and non-duplicative, concept, and one I strongly urge this committee to support.

It was the goal of our Task Force, and I know it is the Subcommittee's, that decent housing be brought within the reach of every American family by the century's end. It is encouraging to note that all the aspects of the housing affordability problem are dealt with in these bills and that valid distinctions are made between short-range and long-range measures appropriate for meeting our goals. Two examples of the many that could be cited should suffice to illustrate this point.

To the problems of first-time home buyers, the bills respond in a variety of ways, including encouraging localities, through HOP, to fully consider the homeownership option; modifying the FHA program; authorizing use of funds in IRA and 401(k) accounts for down payments; and extending through 1992 the mortgage revenue bond program. For all lower income families, the legislation takes the essential step of making permanent the low-income

housing tax credit. Permanent enactment this year, together with modifications to simplify the program as set forth by the task force organized by Senators Mitchell and Danforth, is essential if we are to continue efficiently to attract private funds to low income housing.

Turning to the specifics of the legislation, my comments focus on three major areas it addresses: affordable rental housing, homeownership, and special needs housing support.

AFFORDABLE RENTAL HOUSING

The NAHA creates three different programs to expand and preserve the supply of affordable rental housing. These focus on preserving the existing stock of low income rental units, investing in state and local strategies to expand the supply of affordable housing, and providing a new form of rent subsidy for low and moderate-income families.

First, the NAHA would create within HUD a new Office of Affordable Housing Preservation. The bill would require HUD to work with states and localities to develop an approach to continue the affordability of federal assisted housing to low-income families. The new HUD Office would be responsible for identifying and protecting housing at risk of becoming unaffordable as federal contractual arrangements with landlords expire, providing technical expertise in a variety of ways, and implementing statutory requirements on housing preservation. We should all recognize, however, that identifying the housing to be preserved and providing technical assistance will not be enough in many cases. Funding will be required in order to compensate many property owners for continuing to provide accommodations at affordable rents beyond the time they are legally, or even morally, obligated to do so.

The NAHA also would extend authorization for the Comprehensive Improvement Assistance Program to modernize the nation's stock of publicly-owned, low-income housing.

This framework responds very effectively to two of the major Task Force recommendations: a new national policy should aim at preserving the existing stock of federally-assisted housing, and modernizing the public housing inventory. To do otherwise would be wasteful. I recognize that these efforts will be expensive and that budgetary limits may require them to be extended out over time. But they do deserve a very high funding priority for two reasons: first because they serve families whose needs are most urgent and second because these efforts represent a burden that the federal government assumed one and two generations ago with respect to these very units. This is a burden it should not put down while so much yet remains to be done.

Investing in State and Local Housing Strategies

The NAHA would create a new wholly owned government corporation within HUD called the Government National HOME Corporation. The HOME Corporation would operate the Housing Opportunity Partnership (HOP) program that states and localities could use in a variety of ways to expand the supply of long-term affordable housing. The HOME Corporation would make HOP funds available to states and localities through revolving housing investment trust funds established within HOME for jurisdictions approved to participate in HOP.

States and localities using the HOP Program would submit a housing strategy to HUD that outlines their proposed response to various housing needs and national goals, but would receive wide discretion in using the funds. Jurisdictions could use grants, interest-rate subsidies, and other mechanisms for a wide array of activities such as new construction and substantial rehabilitation for rental or homeownership, and acquisition of rental housing.

Of the total HOP funds, 80% would be allocated by formula and the remaining 20% by national competition. The HOP Program also has a matching requirement, with participants required to make a 25% match of the federal funds from other sources.

The HOME Corporation also would have authority to provide a new form of credit enhancement. It would guarantee securities backed by pools of mortgages on affordable rental or ownership housing issued by state and local housing finance agencies, Fannie Mae, the Federal Home Loan Mortgage Corporation, the Government National Mortgage Association, or other approved financial institutions.

HOME also would rely on existing organizations to provide assistance to pay for training and other support to develop local capacity to finance and develop housing, encourage benevolent lending, and establish community development banks.

The innovative HOME concept is the focal point of the bill. By offering the equivalent of a federal support "supermarket" for state and local governments, HOME guarantees better coordination of efforts to deliver various types of housing assistance, provide credit enhancements, and furnish technical assistance.

The HOP program, like the Task Force proposal, is designed to permit a wide range of state and local strategies to address varying local needs, while providing federal leadership as the catalyst to multiply local efforts.

The NAHA idea of challenging states to share fiscal responsibility for HOP also was an important factor in the Task Force recommendations.

The HOME credit enhancement program offers an effective way to carry out the leveraging strategy that is the core of the Task Force HOP recommendations. This concept makes it possible to extend to low-income housing loans new sources of private sector investment, and more efficient delivery of capital. The HOME guarantee program would promote these benefits by providing the foundation for a liquid mortgage-backed securities market based on affordable housing loans as collateral. In much the same way that Ginnie Mae, Fannie Mae and Freddie Mac nurtured a market for MBS backed by single family loans, the HOME corporation could offer the fundamentals of a successful investment vehicle, such as liquidity, pooling, and Federal credit guarantees.

With these methods, HOME would be able to transform an array of low-income housing products with varying terms and credit risks into attractive investment vehicles backed by the full faith and credit of the United States.

I would, however, offer a caveat with respect to this function and on this point I speak from personal experience. I hope and trust that, in carrying out this responsibility, the HOME Corporation will cooperate with and work through its sister HUD corporation, Ginnie Mae. It would be not only wasteful for the HOME Corporation to attempt to duplicate Ginnie Mae's technical staff, but it would be virtually impossible for it to do so. The proposed new secondary market program will not be big enough or sufficiently routine in nature to support a separate skilled technical staff.

Low-Income Rental Assistance

In this arena, the NAHA's major proposal is to replace Section 8 existing certificates and housing vouchers with "rental credits" with 5-year contract terms. Under the rental credit proposal, states and localities would receive assistance under a formula devised by HUD that takes into account low-income targeting, the distribution of low-income households, the intensity of housing affordability problems, and various other factors. The rental credit program would provide flexibility to states and localities by allowing them to choose the option of providing rental assistance either as a project-based or tenant-based subsidy in connection with HOP. Recipients generally would pay no more than 30% of their adjusted income on rent. Rental credits also would be available to families involved in job training or other welfare reform programs.

The Task Force did not address the issue of reforming existing federal programs for rental assistance payments. But the Task Force did acknowledge the Section 8 program as a very important ingredient in the mix of support necessary for assuring an adequate supply of decent shelter for low-income families. The concept of the rental credits offers a unique degree of flexibility that should substantially enhance the efficient use of resources to expand shelter options for needy families. By giving

states discretion to choose assistance either on a project basis or a tenant basis, this proposal would avoid many of the pitfalls that accompany exclusive reliance on either form. For example, while vouchers work well when apartments are available, they are much less effective in tight markets. The option to choose is consistent with the basic premise of the Task Force recommendations that states and localities can best design strategies to meet widely varying local needs.

Another important innovation is the provision offering rental credits to support welfare reform. This would be done by making rental credits available to families actively engaged in job training or other welfare reform programs if the family otherwise could not afford decent and safe housing. By linking welfare reform and the option of rental assistance, this proposal should greatly assist families seeking to resume living independently, by allowing them to move to housing more accessible to job and educational opportunities.

I would defer to others as to the technical details of these provisions and the relative advantages and disadvantages of the several forms that rental cash subsidies might take. However, I fully endorse the primary importance to national housing policy of a program of cash, or "demand side" subsidies for low rent housing, and the concept of increasing the participation of states and localities in the determination of the form of these subsidies.

HOMEOWNERSHIP AFFORDABILITY

The NAHA includes a number of reforms designed to lower the obstacles to homeownership posed by escalating down payment and carrying costs, as well as regional price inflation.

First, the bill would permit eligible first-time home buyers and other low- and moderate-income buyers to use tax-deferred individual retirement accounts and 401(k) accounts for down payments. This reform, endorsed by the Task Force, should aid many families in marshalling the resources to overcome the barrier posed by down payment costs.

Second, the bill addresses the affordability gap for low-and moderate-income home buyers by amending the FHA program. The bill would replace the current national ceilings on FHA-insured mortgages with ceilings that reflect state and sub-state differences in housing costs. It also would revise down payment requirements to allow FHA insurance on a mortgage up to 97% of the first \$50,000, rather than the current \$25,000 level. Each of these proposals follows Task Force recommendations.

The bill contains several other provisions. First-time home buyers who undergo special counseling could receive FHA loans with only a 3% downpayment against the entire appraised value. Second, the bill would remove current provisions limiting FHA annual

interest rate increases for adjustable rate mortgages to 1 percent with a lifetime cap of 5%. This builds on a Task Force recommendation to permit ARMS with annual rate caps of 2% while maintaining the lifetime 5% rate cap. Third, the bill would enable the HUD Secretary to extend FHA insurance to ARMS with terms that are similar to those of the most widely accepted form of ARM in the market. The Secretary would have to find that the new mortgage does not involve undue default risk either to FHA or to borrowers.

These changes inject more flexibility into the FHA programs, which should further assist low- and moderate-income homebuyers in overcoming downpayment and other loan qualification barriers. It is worth noting, however, that the Task Force also recognized the need for HUD to monitor ARM program costs and losses to see whether they continued at acceptable levels. Adding an express monitoring requirement to the NAHA reforms for FHA ARMs, in my view, would better position HUD to maintain the proper balance of flexibility and safety.

I am especially mindful of the dangers involved in overly liberal mortgage terms because of my familiarity with the high default rate under the old Section 235 homeownership program. In many instances, it would be better to encourage greater savings for downpayments -- as through modifications to the IRA and 401(k) programs. A larger downpayment both decreases monthly payments and increases a homeowner's stake in his property. These are two major factors in keeping people in the homes that a modified FHA program would allow them to buy in the first instance. Both the FHA and the homeowner lose when it becomes necessary to foreclose on a home mortgage, and most of the pain is felt by the homeowner.

TAX POLICY ISSUES AFFECTING RENTAL AND OWNERSHIP HOUSING

The NAHA also would extend through 1992 the mortgage credit certificate program and the mortgage revenue bond program in aid of first-time home buyers. It also would give permanent status to the low-income housing tax credit.

Extending mortgage revenue bonds and the low-income housing tax credit were key Task Force recommendations for tax policy reform to support homeownership and low-income housing. The Subcommittee's attention to mortgage revenue bonds and the low-income tax credit are especially welcome, because these provisions provide vital support to sustain the "new wave" of state and local housing initiatives necessary to the success of a new national housing policy.

Fannie Mae's own experience in public and private sector partnerships to support affordable housing demonstrates how important these tax measures can be. Through our Office of Low- and Moderate-Income Housing, Fannie Mae has worked with more than 20 state and local housing finance agencies. We have invested more than \$1.7 billion in tax-exempt mortgage revenue bonds targeted to

help more than 35,000 low- and moderate-income families. By purchasing these issues in private placement transactions, Fannie Mae reduces the agencies' issuing costs, and allows them to pass along the savings to their home buyers.

The low-income housing tax credit also has played a vital role in our housing affordability efforts. We have found the tax credit a superb vehicle for encouraging nonprofit and corporate support for low-income housing needs, and we are committed to encouraging other corporations to make use of it. Since June of 1987, we have committed to invest more than \$100 million in qualifying projects that will finance the development of 5,000 units of rental housing. We expect our commitments to grow substantially in the months ahead. If the tax credit legislation is not extended, however, the growth in these investments will come to an abrupt halt in the near future.

Our investments reflect the range of housing to which the credit can be applied. In one effort, we have committed to invest more than \$30 million in New York City to help rehabilitate up to 1,000 units of abandoned housing in the Bronx, Manhattan, and Brooklyn for the homeless and very-low-income people. The vast majority of this housing will be committed to low-income use for 40 years. In these projects, Fannie Mae works with the Enterprise Foundation, which is assisting New York's community groups to identify appropriate buildings and to help them structure the transactions. The city of New York is making available city-owned properties at nominal cost, and both the city and the state are providing mortgage financing on concessionary terms. It is the active participation of all the partners that makes this program work.

In Washington, D.C., we have been working with the nonprofit organization known as So Others Might Eat (SOME), the D.C. Department of Housing and Community Development, the Enterprise Social Investment Corporation, the development firm of Mulligan & Griffin, Maryland National Bank, and Citicorp. Our combined efforts will produce Washington's first permanent housing for the homeless: a 100-unit single-room occupancy (SRO) project that will serve the homeless, the disabled who can live independently, and low-income single working adults. Fannie Mae will serve as the equity investor-limited partner.

Another example of the value of the tax credit is a transaction we are investing in as a limited partner, the Longwood Apartments in Cleveland, Ohio. The efforts will preserve and renovate 820 units for low-income families. The project had been the subject of a HUD foreclosure, but was purchased and redeveloped by the Associated Estates Corporation of Cleveland. Financing will come from a coinsured HUD loan from a private mortgage company. The project will also benefit from a 15-year HUD Section 8 subsidy.

These are just a few examples of how the low income tax credit can magnify and encourage the participation of the private sector in meeting the housing needs of lower-income families. Fannie Mae is proud of its role in this search for innovative solutions. We believe that our efforts can encourage and assist lenders and other corporations to meet the needs of lower-income families and help revitalize older urban neighborhoods. I will also be forwarding, for the record, a copy of the most recently updated report describing our low- and moderate-income housing activities in more detail.

By making the tax credit permanent, and supplementing it with flexible federal assistance such as the HOP program, the NAHA will help substantially to expand the supply of low-income rental housing.

SUPPORTIVE HOUSING

The NAHA includes a number of reforms designed to enhance housing programs serving the elderly, handicapped and homeless people. The NAHA would create a new HUD office of the Assistant Secretary for Supportive Housing to administer these programs. It would expand the supply of supportive housing for the elderly by retrofitting existing federally assisted housing and providing forgivable loans to finance production of elderly housing by nonprofit sponsors through the Section 202 program. The NAHA also includes a special program to finance production of housing for the handicapped under a capital advance program, and would authorize HUD to set aside a portion of available rental credits for use by handicapped persons.

The bill would offer additional aid for the homeless by fully funding and improving the Stewart B. McKinney Homeless Assistance Act. The bill authorizes McKinney Act homeless assistance of \$241 million in fiscal year 1991 and \$251 million in fiscal year 1992, which includes inflation adjustments to accommodate full funding. The NAHA would replace the current system of five categorical programs with a flexible block grant. This would allow states and localities to determine how to allocate federal resources, give them incentives to develop comprehensive solutions, allocate resources with more predictability through a formula that considers regional levels of homelessness, and reinforce outstanding homeless assistance programs.

These provisions of the NAHA lend strong support to the Task Force recommendations on supportive housing, which urged immediate attention for the homeless and encouraged state use of HOP funds to assist others with special needs, such as the elderly and the handicapped.

The NAHA also contains important innovations to assure the smooth meshing of public housing support and economic self sufficiency programs. Of the money authorized for the Comprehensive

Improvement Assistance Program (CIAP), \$25 million is provided for the new "Project Independence." This program will funnel assistance to public housing residents by permitting renovation of facilities in or near public housing to provide day care or other services for parents working or preparing for employment. Also, public housing residents would be exempt from rent increases while participating in a self sufficiency program and for a transitional period after finding employment.

Through such measures, the bill should provide a much stronger network of support for people seeking to re-enter the mainstream of economic independence and productivity.

SUMMARY

The National Housing Task Force report called for the reinstatement of housing as a national priority, along with a fresh new approach to build on state and local initiatives.

The National Affordable Housing Act creates the means to accomplish what the Task Force hoped to see done. The legislation would build a firm foundation for significant progress in the national effort to house all our families in decent and affordable housing in safe and liveable neighborhoods.

Senator CRANSTON. I would like to start with questions to you, Governor. The Federal Government now has over 50 years of experience with housing programs. From public housing to Section 8 vouchers, the Federal Government has met with both successes and failures in providing decent and affordable housing to the nation.

One of the most immediate and important tasks involved in the 2-year-long process of producing the National Affordable Housing Act was the reevaluation of the Federal Government's role in providing decent, affordable housing.

In your testimony, you indicate that the Federal Government must take a leadership role in housing policy. You also say that the Federal Government must work with the states as partners in meeting housing goals.

In your opinion, does the Cranston-D'Amato bill take the right approach to this? Do you have suggestions on how it could be improved to build stronger partnerships with states and localities?

Governor DiPRETE. I would say that the Federal Government has a very strong role in addressing the question of affordable housing. I think all of the speakers here today made several references to housing partnerships. I do not think any one of us at any level of government or the private sector can solve those problems by ourselves, but working together we can and we will solve the problem.

Certainly, the Federal Government—and I am delighted to see the reentry of the Federal Government into the problem of finding decent housing for our citizens. As Chairman Rouse said, we can sense a rebirth in this area. We have a new HUD, a new Secretary in Jack Kemp. We see innovative programs. I can see the Federal Government taking a strong leadership role, working with the States, working with local governments, with the private sector, both the profit and non-profit. I think this is going to be the key to the solution.

Certainly, with the States, we by ourselves cannot solve the problem. I think history has shown that. Housing is a crisis right now. With the reentry of the Federal Government, I am very optimistic that, working together, we will address this.

Senator CRANSTON. The capacities to develop affordable housing services vary widely from State to State. There has been much discussion over whether every State will be able and inclined to work toward national housing goals.

In your testimony, you say that the States are expanding their capacity to develop housing and to manage housing programs. Would you give us a few reasons for your confidence in the ability of States to step up to this challenge?

Governor DiPRETE. Well, first of all, I think because the States are closest to the problem. I know in my own State, we are a State of about one million people, very compact, people with housing problems. I am talking about individuals as well as social activists, churches, non-profits—they come knocking on the doors of the State house, and they are looking to the State government to show a leadership role.

In fact, we have stepped up to the plate. But again, our resources are limited. In our own State, in the 1988 session of the general assembly, we sponsored and secured passage on a bipartisan basis—and I think Jim Rouse was right on target when he said

that the issues that we were talking about here today are not partisan, they cross liberal-conservative lines; we are talking about humanitarian issues—on a bipartisan basis, we now have a State-funded rental subsidy program in the State of Rhode Island, to try to be sure that people, the very poor, do not spend more than 30 percent of their income for housing.

Here again, we are limited in our resources. Governors around the country are taking leadership roles in addressing the question of housing. The National Governors' Association has adopted a very strong policy that dovetails beautifully with the Cranston-D'Amato bill, that stresses the partnership role between the Federal and the State governments. I know the Governors are anxious to show that we want to be active partners.

Senator CRANSTON. In the next decade, the nation stands to lose several hundred thousand subsidized housing units through mortgage prepayments. This is a very serious and difficult problem. Various reports have recommended that the problem be resolved on a project-by-project basis with incentives to owners to retain the housing for low-income use, or to non-profit sponsors to purchase it.

The Development Act of 1987 had interim provisions for such approaches. What steps has your State taken to avoid the loss of affordable housing through prepayment, if you have taken any? What difficulties have you had, or do you foresee? What assistance should the Federal Government provide other than what is now in the law on this particular difficult, intractable problem?

Governor DiPRETE. Maybe I will answer those questions, Senator, probably in reverse order. The 1987 act offered a set of tools that can be used in conjunction with State and local financing. I am going to suggest specifically the 15-year section 8 subsidy extension, and loans for capital improvements.

Obviously, adequate funds have to be appropriated to extend those subsidies. I feel, however, that that would be an incentive to avoid the prepayment of the section 8's that we are also worried about.

As far as what we are doing on a local level, the State level, last year as Governor I signed into law a bill that requires owners to give 2 years notification and the right of first refusal to tenants or to the State housing agency, to localities and public housing authorities. We have met good support on that. There is a 2-year notification requirement, and that has not been a problem in our State.

This year, currently I have three bills pending before the general assembly. One would place restrictions on owners planning to convert existing or formerly subsidized units to condos. It will allow elderly residents life tenancy, with limits on the rent increases, and it would give nonelderly tenants 2 years to find a new place to live.

There is another bill—and this is being well received—that would offer State tax credit incentives to owners of federally insured or assisted properties, who sell them to non-profit organizations. Finally, we are urging passage of permissive legislation that would allow cities and towns to exempt from taxation properties occupied by low- and moderate-income households. Here again, it involves the cooperation of the State and local governments, but

this would be permissive legislation that would give certainly tools available to the local cities and towns.

Senator CRANSTON. Concerns have been expressed that, without the Housing and Community Development Act of 1977 or 1987, or similar legislation, States would be forced to adopt preservation strategies in an atmosphere that might become pretty rancorous, like a crisis.

Some State's strategies would succeed, and others would fail, and there would be a patchwork of various approaches across the country.

I would like to ask if you share that concern. Would a State and local strategy be a reasonable or an unreasonable way to deal with the problem? What approaches to prepayment do you believe are likely to be most successful?

Governor DiPRETE. I do share that concern, and again it is going to take creativity, flexibility, cooperation, and partnership between government at all levels. I believe the bottom line, the key to it, is going to be incentives. I think we are going to be creative. We have to be creative in finding incentives that would preserve these units and keep them there for affordable housing, and certainly discourage owners from converting them to other uses.

Senator CRANSTON. Thank you very much. I think my time is about up, so I will yield to you, Al.

Senator D'AMATO. Governor, let me say that your reputation as it relates to your leadership in this area is understated. You and the people who have assisted you should be commended for demonstrating the kind of care, concern and action in dealing with so many of these critical housing problems that have come about, and certainly as it relates to the expiration of the programs which would take—what is it?—30,000 of your residents and place them in extremely precarious positions. That is just an incredible number. I want to commend you for the programs that you have touched.

Senator Cranston and I and our staffs have now begun to look at this. We have been working on this for a period of time. I would like you, Mr. Chairman, to invite the Governor, if he cares to do so now, to pursue the areas and suggestions that he thinks federally—because I do really think that we have a responsibility. We have got hundreds and hundreds of thousands of families who are in this—right at the edge, and who could literally become homeless.

I do not know where a family with an income of \$25,000 or \$30,000 in the city of New York—and you would say that certainly that is not a family that you would think would be in a precarious position—but with two or three children, where would they be able to find affordable housing.

And there are many, many circumstances where there is a couple that has raised their family and now might have an income of \$17,000 or \$18,000, a retirement income—where are they going to go? Are they going to be pushed into a choice where they have to go to a trailer camp, maybe in one of the southern States, to reduce their cost of living, and leave their family and leave their region?

Do you have any ideas as to how we could legislatively deal with these problems so as to ease the burden, as it relates to the termination of these projects?

Governor DiPRETE. First of all, Senator, let me thank you for your very kind comments. We have tried to address the housing question on a proactive basis in the State, and I think that we are being successful at it. It is not going to be solved overnight, but working together with all parties concerned we are moving and moving quickly. I do appreciate your positive comments.

As I alluded to in my prepared remarks, I believe there is a chain reaction that basically tells us we have to find ways to encourage homeownership, even for low-middle-income, and relatively low-income people. Because what is happening, as people are being priced out of the market—in my own State, we have had an unprecedented surge in the economy. Land values have skyrocketed. In 1988, I believe, the average increase in the sales price in the State of Rhode Island was first or second in the entire country.

So we had the cost of housing, the resale cost of housing, skyrocketing, with, obviously, incomes not keeping pace. Our income increases are above the national average, but certainly nowhere near the substantial increase in the median sales price of a home.

So what has happened is, people who ordinarily would have been able to find a home, for one reason or another cannot own a home, so they are going into the rental market. There is a heavy demand in the rental market.

Obviously, what happens—supply and demand—the rent prices are skyrocketing. People who were formerly spending 25, 30, or 35 percent of their income on housing are now paying significantly more.

So I think, specifically, to answer your question, to encourage homeownership, certainly more flexibility in the FHA program, an increase in the ceiling to perhaps 95 percent of the average or the median sales price in a given area to allow for a higher mortgage, meaning less down payment.

Many couples also find a problem coming up with the downpayment. I think we have got to look at creative ways, as we have in Rhode Island, to locally operate second mortgage programs, in some cases outright grants—

Senator D'AMATO. You have some second mortgages.

Governor DiPRETE. In some cases, outright grants for people to provide for the closing costs. Closing costs, as we all know, can be very substantial. Some people say, "I can carry the monthly payments, if I only had the down payment and the closing cost."

Collectively, in our State with the Governor's office, we have provided for people to buy homes who would not otherwise have them, but I think the key to the whole thing, to reduce the ranks of the homeless so that they can afford decent rental housing, is to decrease the number of people looking for rental housing, to put them in their own homes.

Senator D'AMATO. Thank you, Governor.

David, some people have commented that the FHA reforms, that we call for as it relates to the first-time home buyers section of the bill will actually inflate housing prices.

How do you answer that? Do you see this as a potential problem, and do you have any suggestions as to how we may avoid this?

Mr. MAXWELL. I have heard that argument made, and the task force in fact considered that argument before making its recommendations in our report. I do not believe and the task force did not believe that is indeed the case.

We feel that the problems of housing costs relate to the cost of land, to various obstacles that are put up in some local communities through zoning and other kinds of restrictions which add to the cost. There are a lot of factors that go into these escalating housing costs, including, as the Governor mentioned, just the economic prosperity of his State.

And we feel that the liberalization of the FHA program will not increase the cost, but on the contrary will enable, as provided in the bill, many first-time home buyers to afford home ownership who cannot now afford it.

And I want to emphasize again the continuum that we have here because if we can get these first-time home buyers into homes, that is going to free up rental housing. It is going to relieve pressure on the whole housing system.

Senator D'AMATO. Let me just, if I might, touch on one other thing a number of my colleagues, in soliciting support, raise as a concern.

The FHA—they say if you liberalize the down payment provisions, expand the ceiling, which I think is absolutely an essential thing. Even in the Governor's State \$100,000 mortgage in many cases in many regions just simply is inadequate, and so that ceiling has to be raised to more accurately reflect the cost of housing in that particular locale.

But some of my colleagues say, will that have a significant impact? Will that take FHA and make it a loser? Will it impair their ability to function in a manner, in a creditworthy manner?

Do you have any suggestions? Have you looked at that, and what is your answer to those inquiries?

Mr. MAXWELL. Yes, we did look at that, and, first of all, I would say that the FHA exists in order to assume some risks that cannot rationally be assumed by the private sector. Otherwise, there is not much reason for having an FHA.

It is clear that if you have lower down payments and if you have a wider array of adjustable rate mortgages that there will be more risk of loss.

Our view in the task force was that this is a risk that ought to be taken to address this very serious national problem of housing affordability.

I say in my full testimony that this should be very closely monitored by the FHA. Clearly, they must keep track of the risks that they are incurring and report back to the Congress as to what the results are.

We believe at this point, from all the evidence we have in the task force, that this is an acceptable risk and one that the FHA should undertake in order to relieve the serious problem.

Senator D'AMATO. Our legislation in no way mandates the lack of criteria, that the FHA still has the right as it relates to creditworthiness, income, et cetera, and to make those assessments to

keep the risk management well within the guidelines of prudent management; isn't that correct?

Mr. MAXWELL. That is absolutely correct.

Senator D'AMATO. Jim, I have saved the toughest for you.

We have heard and Secretary Kemp has addressed this incredible problem as it relates to some of the housing projects that have been taken over in certain cases by the drug gangs and almost a criminal element that makes the tenants captives—what do we do to provide more effective tenant management in these areas? Do you have any ideas as to what we can and should be doing?

Mr. ROUSE. Well, the tenant management idea is a very hopeful one, and in a few instances in which it has occurred it gives hope for larger possibilities.

I don't think there is any panacea in this. I don't think there is any quick, simple action. I think there is clearly limitations on this, that you don't find a Kimi Gray or a Bertha Gilkey in every public housing project. It takes extraordinary leadership for this to occur.

There are lots of things that I am sure this is one of the pillars of, Jack Kemp's convictions about housing, and I am sure he is working to find every feasible way of doing it.

I would raise a little warning on this, on the danger of turning public housing over to tenant management that is not competent. Management is the real answer in public housing. You see huge differences in the quality of management in Chicago, which clearly has impossible management of its public housing and impossible results with all of the machine gunning and just terrible violence that there is.

On the other hand, New York, which is a comparable environment in many ways, has public housing that is very well-managed and is free of an awful lot of the distress of Chicago.

So the real test is good management.

Now, drugs are a national problem that penetrate everywhere. I heard horrible statistics the other day that 25 percent of all babies born in inner city hospitals in the United States are addicted at birth. These are the kinds of conditions we are facing in America, and I would make the case that a very important platform on which to build new self-respect, new dignity, new hope, new possibilities for people leading better lives begins with decent housing.

You just can't expect to achieve much transformation in the life of an individual who is on the street or who is living in miserable housing or doubled up or paying outrageous rent that he cannot afford and the family is deprived because they don't have the money to cope.

So that what we are dealing with in housing fundamentally, I think, is the beginning point on a lot of these other issues.

Senator D'AMATO. Thank you, Mr. Chairman.

Senator CRANSTON. Thank you, Al.

Dick Bryan.

Senator BRYAN. Thank you very much, Mr. Chairman.

I would like to ask a question about the formulas. I think that part of the genius of the bill is the involvement or, to use your term, Mr. Maxwell, using the Federal funding as the lever to involve and participate with local and State governments as well.

One of the questions that I have—and if you could address this with some specificity—is how is that funding formula to be developed? That is, are we going to use a criteria of population, of percentages of the housing stock that are occupied by low or very low income families, the age of the housing stock?

I think that will be of concern and interest to many Governors in terms of how that Federal allocation is to be made, and maybe you could address that, if you would, please.

Mr. MAXWELL. Well, again, in the task force—and Jim Rouse can please supplement my answer—but in the task force that was a subject that we also considered in great detail, and the bill reflects the task force conclusions on that.

In our view, the funding ought to be based on a formula that does in fact include the factors that you have just enumerated; that is, the population of the State, the housing needs, the program, the plan of the State which is required to be submitted to the Federal Government in order to receive the funding.

It has been my experience since I was General Counsel of HUD in the early 1970's that when you get right down to it, in working out these formulas, you come out basing them on factors which permit any State that wants to participate in the program to do so on an equivalent basis, whether it be South Dakota or New York State or whatever, and there should be some discretion, as is provided in the bill, for the Secretary of HUD to award funds based on special plans and programs.

But I believe that, generally speaking, if States respond as we hope they will, the formula should be a pretty fundamental one based on factors that are common to most States.

Senator BRYAN. I appreciate that.

Mr. ROUSE. I think there is a concept in this bill which is very important, and it is new, and it is that instead of the Federal Government prescribing everything that is going to occur, it makes money available and allows for the possibility that there will be failures as well as successes, but in allowing for that possibility, it also creates the opportunity for one city, one neighborhood, one State to out-perform another, to build new models of the possible, and thereby evoke a kind of creative competition among nonprofit groups, private profit groups, governmental communities, cities, states to move on, set new examples.

There is a lot of use that is possible in the—enabled by this program, and that is at the heart of it, to really allow for the possibility of things being better one place than another because of the quality of local initiatives rather than assuming that you can level it out by Federal Government prescription.

Senator BRYAN. I commend you for the flexibility, as a former Governor who has worked with these programs at the State level to give us some flexibility. Our situations are not all the same. The problem is national in scope, but nevertheless in particular areas you have different kinds of problems as it relates to the homeless.

One of those problems that has engaged us all in discussion is we embarked, I am sure, with the best of intentions in the 1950's and the 1960's with major public housing undertakings in a good many of our major urban centers. We built these huge hi-rises, and at the

time I am sure that the most thoughtful approach of the day dictated that we should do so.

Now, as we revisit those decisions in terms of policy for the future, I think that there are many that would say that was a mistake and, as you both know very well, we have demolished some of those in some of our major cities. St. Louis is one that comes to my mind, at least, and the debate continues to rage with respect to those that are still in existence.

Do we refurbish those—they are potential existing housing stock, although much in need of rehabilitation—or do we say, in effect, look, it was a mistake, let's acknowledge it, we will never make a go of it in terms of a viable tenant-managed enterprise or public housing, and start and rebuild?

Your thoughts, gentlemen.

Mr. ROUSE. Well, I think we do both. I think there is some housing that has reached the point where it is very doubtful that it can be effectively or efficiently restored, and I think it has been pretty well-accepted that we don't go out and build hi-rise public housing any more. What is being built is almost all lo-rise housing.

But there is some hi-rise public housing in America that is good and is serving a good purpose, not as good as if it were on the ground for those families, but it works, and I don't think we would tear it down.

I think we have got to be very frugal at the same time we are being resourceful. I think we have got to hold on to everything that we can hold on to.

I remember being in Dallas and seeing that there was almost all of—there are some 7,200 public housing units, and I think 1,700 of them have been declared unfit for human habitation and are closed up, all pockmarked through a lo-rise project.

This is outrageous. This isn't the fault of hi-rise buildings, and there is a lot more of this in the country. This is bad management. HUD has got to get at bad management and have it thrown out and put in people who are competent to manage, sometimes tenants, sometimes just new management, and then we ought to rehabilitate every single thing that we possibly can that can—that is frugal to do.

Senator BRYAN. I would agree with you on your observation of management. I think that was at least in part the question raised by Senator D'Amato.

Does this bill provide adequate tools for HUD, in effect, to make sure that it occurs? Are there any statutory inhibitions or just the situation in which there is always a reluctance to challenge management, to replace it?

Is there any structural impediment that we now face, or is it simply a question of do we have the will, do we have the energy, do we have the determination to simply say you have failed in your management responsibilities and we are going to insist that new management take over?

Mr. ROUSE. I expect that there are some structural inhibitions because some housing authorities are created by State legislation that may impose restraints, but HUD holds the purse strings, and I expect holding the purse strings that it can bring about pretty much what it really wants to do.

David would be better on this.

Mr. MAXWELL. In the task force report we pointed out that there were housing authorities that are falling down in their management responsibilities and that HUD should use its powers to, if necessary, step in and even declare receivership. They should not permit the housing authorities to continue to preside over these dreadful, unacceptable conditions that exist in some of these projects.

In my view, echoing Jim Rouse, I think that modernization funds—I mean, it is like everything else. Sooner or later I suppose it comes down to whether there is money available, but since there isn't all of the money that we would all like, the use of modernization funds by HUD should be very realistic or even cold-blooded, in the sense of: if you are doing your job and that project can work under the kind of management you are providing in the housing authority, you get money to modernize, and you over here do not get it because you are not doing the job.

Senator D'AMATO. Would the gentleman yield?

Senator BRYAN. Absolutely, Senator.

Senator D'AMATO. I think Senator Bryan has hit on something that is very important and, David, you touched on it.

It would seem to me that what we are saying is that there has been an abdication of responsibility, that Washington has made these funds available, and that in many instances the public housing authorities have been responsible in terms of their management, in terms of their operation, and in too many cases there has not been that kind of responsible management, but that in the final analysis HUD, not through legislation, et cetera, but through exercise of responsibility, exercise of restraint in terms of those dollars, conditioning them if necessary and being downright tough and ruthless, should and does have the ability to get better management and bring it about, whether it is through the tenants, or public housing authority, et cetera.

Is that fair?

Mr. ROUSE. There are some policies that emerge from HUD itself that are the product, I think, of the sheer size of its problem, but in this business of maintenance, for example, the housing authority cannot come in and take funds to replace doors on one unit and not another unit. It cannot do what a private management company would do with just persistent and continuing correction of things that needed to be that are in the nature of rehabilitation. It has got to wait until it comes in for a program to replace all of those doors, and this is both nonfrugal and inefficient, but one can see how it might emerge in presiding over the huge number of—

Senator D'AMATO. I would look forward to working with the gentleman, with Senator Bryan, as it relates to getting some—getting HUD, Mr. Chairman, to focus in and see if we can't on a private basis get that kind of management by them getting tough in some of these areas.

I just think in some cases it is a matter of neglect. They are pushing the money out there and not seeing to it that you have got that kind of implementation.

And I thank you for yielding, for giving me the opportunity.

Senator BRYAN. Senator, I appreciate your comments. Nothing is more disappointing than making the judgments for the allocations that a number of us are prepared to do recognizing this problem. To have those resources allocated and then to see them devoted to a project and through sheer ineptitude to have that project fall apart in a few years, that just is terribly frustrating.

We see it here in the District. Those of us who live in the District and drive around, there is public housing stock available just a few blocks from this meeting room that at least visually from the outside appears capable of rehabilitation. I don't know the structural integrity. It is not hi-rise construction.

We read in the paper that there are thousands of homeless in the District, and one wonders where is the initiative to put that stock which is potentially available back into the inventory.

Mr. Chairman, I have long exceeded my time, and I apologize to Senator Pressler for encroaching upon his time.

Thank you very much.

Senator CRANSTON. Thank you very much.

David, did you have a comment on this?

Mr. MAXWELL. Just, Mr. Chairman, to add to what I think Jim had said, but which is so important: we know that it can be done right. It isn't as if there is something inherently impossible in the concept of public housing that makes it bad. It is good in many parts of the country, so that we shouldn't accept this at all, this bad management, and what we should do, as Senator D'Amato has said, is move in and correct it.

Mr. ROUSE. Public housing gets a worse name because of the bad stuff than it deserves as a whole because across the country there is—I would say that predominantly public housing projects are well-managed. But the bad ones are awful bad, and they make a terrible statement, and we all cringe at what we see.

Senator CRANSTON. I wish you would each feel free to come in and comment on things as we are going along.

Governor DiPRETE. Mr. Chairman, I would like to briefly describe a process that we have used that Senator Bryan referred to, keeping affordable housing in inventory. We have a housing project in the city of Providence called University Heights. This was in danger of being prepaid. So with the Governor's Office of Intergovernmental Relations, a procedure was devised using our State-funded rental subsidy program so that a tenants association was set up as an ownership, so to speak, but capable private management was hired to provide the necessary professional oversight, to continue to operate these 92 units of University Heights so the people could continue to live there with their rent subsidies that are again State dollars, but we just don't have enough to address all of the section 8 prepayment problems. But in this case we were able to use the State-funded rent subsidy dollars as part of the financing package, which allow the tenants association to go forward, take ownership of the 92 units, continue to pay their affordable rent, with the professional oversight to make sure that the caveats that we have heard earlier are being addressed.

Senator CRANSTON. Thank you very much.

Larry Pressler.

Senator PRESSLER. Thank you, Mr. Chairman.

I join in the remarks of my colleagues about better management if we could find a way to do it, and I certainly will be supportive of that.

Let me ask a question about the issue of mortgage revenue bonds. The mortgage revenue bond program has been very successful in my State, and I know, Governor DiPrete, you mentioned that it worked well in Rhode Island. We have more than 25,000 first-time home buyers in South Dakota with a population of 715,000 people.

Would you favor making the program permanent?

I know we have legislation to extend it for 2 years, and I know that each administration budget, whether it be Carter, Reagan or Bush, always implies at least that the mortgage bond program is something we should eliminate.

Could I just have some additional comments from any of you on that?

Governor DiPRETE. I very much support the idea that we should go a step beyond what is being considered and enact a permanent extension for the mortgage revenue bonds and the mortgage credit certificate programs.

The MRB's have helped some 35,000 home buyers in my State, and I think one of the things people don't like in the financing business and in investing large sums of money is uncertainty, and I think where we have means at our disposal and have an opportunity through this legislation to not merely extend the date by a limited period of time, a definitive period of time, but to say that we are going to take the initiative, Congress is going to take the initiative and enact a permanent extension I think would be a good signal and the right thing to do.

Mr. ROUSE. I think that would be very wide agreement with what the Governor is saying. The short leases that are given on individual programs adversely affect planning, private and local government and State planning; whereas, if a program that works can be made permanent it is always subject to being knocked out if it doesn't work or if Congress changes its mind, but at least if it is there and it is reasonable and it continues to be an effective program, to allow it to be regarded as an established part of the housing system, that would be very constructive.

Mr. MAXWELL. I would like to echo that, Senator Pressler.

It is effective. It delivers housing to first-time home buyers, and it should be made permanent so that people can plan who are going to develop housing for those first-time home buyers.

Senator PRESSLER. Why do you think it is that each President—Carter, Reagan, and Bush—in their initial budget suggestions essentially suggest that we eliminate this important program?

Mr. MAXWELL. Well—

Mr. ROUSE. You might ask them.

Mr. MAXWELL. I think there is an institutional bias in the permanent civil service in Treasury and in OMB against it.

Senator PRESSLER. OK.

Senator D'AMATO. Absolutely.

Senator PRESSLER. Earlier, Mr. Maxwell, you mentioned that formulas used in HUD programs have worked out well, but I must say we in South Dakota were not happy at all with the UDAG formula.

As I recall, in one UDAG round, 80 percent of the grants, both in number and dollars, were made east of the Mississippi river. I have nothing against the folks east of the Mississippi, but I am always looking after rural and small town interests so that they get a fair share.

I wouldn't hold your feet to the fire here—but what things in this housing bill do you see that are beneficial to small towns and rural areas? I am not addressing the Governor. If the Governor wishes to respond, he may, but I am addressing Mr. Maxwell and Mr. Rouse.

Mr. MAXWELL. I will be glad to start. I think that the beauty of this bill, as Jim Rouse has so eloquently pointed out in this hearing, is the flexibility that it gives to the States and local communities, private developers, nonprofits to develop housing that responds to the special needs of the local communities. It is precisely the nature of this bill to respond to the concerns you so rightly expressed in your opening statement, Senator, because the flexibility will give a State like South Dakota, with its HOP money, the ability to deal with rural communities and small towns.

That is something that the National Housing Task Force did study and take into account in our report. Harold Wilson was a very active and effective member of our task force, and a whole chapter of that report is dedicated to rural housing needs.

So we were very mindful of that, and I think the bill, by endorsing and promoting this flexibility, will accomplish your objective.

Mr. ROUSE. It also does some other things. It sets aside some FMHA loans for particular use in communities that have a high concentration of poverty and substandard housing and have been underserved by FMHA, and it also authorizes project preparation advances to help nonprofit organizations in underserved rural areas prepare affordable housing plans and applications for FMHA assistance.

One thing that came before our task force frequently was that in the small communities, including many of the States, there wasn't the establishment, there weren't the systems, there weren't the processes for taking advantage of a lot of the local—of the Federal availability of funds, and I think this tends to deal with that.

Senator PRESSLER. What do you see in this bill for the elderly?

I understand there is the so-called reverse mortgage concept. Does this legislation further that? In my State of South Dakota many people from farms will move into a small town when they are elderly, when they are ready to retire, and they move into an apartment or a house. They certainly would not be assisted as first-time home buyers. They are not impoverished people, but they are probably poor people in many cases.

What do you see in this bill for the elderly?

Mr. ROUSE. Well, I am reading from a summary that some of us have prepared that deals specifically with this. It would continue the 202 program, which has been the basic Federal assistance, that rental housing program, but it would provide funding through a combination of interest free advances and project rental assistance which would greatly reduce the budget authority required to produce a unit. It would ensure that elderly housing is designed to, one, meet the special physical needs of elderly and frail elderly per-

sons and, two, accommodate the provision of supportive services that are tailored to the needs of elderly and frail elderly persons. They would replace the current fair market rent limitation on development costs with a standard based on local construction costs.

This is designed to enable the program to operate in all areas of the country and remove the chief cause for delay in the current program.

I think it has particularized a lot of the improvements in the present system in a way that should be more effective. There was very strong and effective voices on the task force on behalf of rural and small communities, and that carried through in our recommendations, and I think it is carried through in the skillful work done by your committee staff in framing the legislation itself.

Senator PRESSLER. What about the concept of reverse mortgages for the elderly?

Mr. Maxwell?

Mr. MAXWELL. Well, the Department of Housing and Urban Development has embarked on a demonstration program of reverse mortgages which I think is highly desirable. Fannie Mae has worked with the Department on that, and we are going to purchase these mortgages as they are generated, and we will see whether in fact the elderly homeowners are interested in that kind of mortgage, and I think it will be a very interesting experiment.

I cannot predict how this demonstration will come out because the people who have promoted reverse mortgages in various parts of the country have found, actually, some resistance among the elderly to burdening their homes and an uncertainty if they live longer than they are supposed to under the contractual arrangements, what happens to them then.

So there are factors here that make the reverse mortgage perhaps not universally accepted. But I think that HUD's demonstration will go a long way to establish whether this is a useful instrument, and that is what HUD is for. If that turns out to be popular, then the conventional market, the nongovernment market can take it up, and Fannie Mae will already be positioned to provide a secondary market.

Senator PRESSLER. Let me pursue the 401(k) option. It is proposed that IRAs and 401(k)'s be used for down payments by first-time home buyers—do you believe that many prospective first-time home buyers have IRA investments or 401(k) retirement plans?

Mr. MAXWELL. Well, I don't have any figures on how many potential first-time home buyers have such accounts, but our position on the task force—and we are very pleased that the subcommittee has carried it into the bill—if you can use your IRA or your 401(k) to invest in gold futures or Eurobonds or a whole bunch of things like this, why shouldn't you be able to use it to invest in the most important vehicle for savings that most people have in this country, which is their home.

Senator D'AMATO. I think if I might, that the report indicates using 1987 figures on the expanded mortgage provisions that we have called for and use of the IRA's, there would have been about half a million more people who could have purchased a home, obviously by the reduction of that down payment and a combination of the use of the IRA, that is a significant contribution.

Mr. ROUSE. There is a point here that I keep making and I think really calls for the Senate's understanding of a new way of dealing with housing, and we have a dreadful financial problem in the country. We have a huge deficit, as everybody knows. We must be resourceful in the use of funds. Housing isn't going to get anything like the money it needs. It needs billions of dollars more to deal with the problems that exist, and therefore the task force report and I think the philosophy in this legislation is to induce every bit of unique and local action that can be taken to produce nonfederal funds to deal with housing needs, and this is fundamental to this new philosophy, new strategy with respect to housing.

A couple of things I would like to mention if I may, Mr. Chairman, in connection with that.

There are two small provisions. They don't take much space in the bill, but they are typical of this.

One is a provision for what is called benevolent loan funds. There are some places in the country where local organizations—the Enterprise Foundation in Baltimore has done this. They set up a benevolent loan fund, where we made it possible for people to come in and make deposits for a 3 percent return, with a commitment that all that money would be used to house the poor.

This was looked upon by many people as being foolish and futile. There has been raised in Baltimore in a little less than two years almost \$7 million by people putting up money at 3 percent to help to house the poor.

That, for reasons cited in the task force report, which I won't speak again of, there is a glitch in that program, and it needs support. But if a way to support it were found, the task force estimates that there is \$2 billion a year available at rates of 5.5 to 6 percent.

I personally believe that that is doable, and it is important, and that is new money that now isn't in housing.

And, similarly, there is a proposal for the support of a community development bank, one of which has been established, a notable one, in Chicago called the South Shore Bank, but other banks in the country now have done forms of this, in which banking gets into a new relationship to housing. We have lost the old bank, and we are now losing the savings and loan with respect to housing. The old methods of finance are becoming less and less available, and banks really don't have the personnel capacity to deal with the person who wants to come in and borrow \$7,000 or \$10,000 or even \$20,000 on a new house.

A community development bank has that responsibility. That is what its funds are to do, and we urge the serious development of that.

And there is a third thing that comes up now that is not in the act at all, and that is the problems of the savings and loans. This disaster of the savings and loans, like most disasters, has an opportunity aspect of it, and the opportunity aspect is to find a way to use this disaster of housing to house the poor, and there will be amendments. There will be legislation proposed to this committee that the handling of FSLIC be done in such a way that there is the opportunity to—without damaging the supply of funds back to the government, but that opportunity for first refusal by State, city, or nonprofits, that some refinements of the—whatever that law is

called—the Community Reinvestment Act, that this be used to induce further lending by financial institutions for purposes of low income housing.

This is a real opportunity, and it should not be lost by Congress and the country. We urge that you pay special attention to opportunities that the FSLIC disaster may present for affordable housing.

Senator PRESSLER. In conclusion, I want to say that I appreciate the spirit of your responses. I hope as this goes on we will be working with the Western Coalition of Senators, keeping them informed. We meet once a month on some of the issues in the housing bill, and I think it is very important, particularly out in the States in my area where we depend very heavily on the mortgage revenue bonds because we don't have a lot of the investment available from other sources. That is something we would very much like to see made permanent. I think decent housing should be a basic right of Americans. I certainly will be working very hard to move this bill along and to put our point of view into it.

Thank you very much.

Governor DiPRETE. Senator Pressler, I would like to comment on a couple of points that you brought up. I think they are good ones.

First, regarding IRA, I see—properly structured, I see an IRA mechanism being very useful for qualified population groups being able to accumulate a down payment by tax savings, again for qualified people, IRA being there to allow them to deduct a certain amount of income off of the top, so to speak, on their Federal tax and State tax returns, this being put aside rather than for retirement, for home purchase. I think it can be a useful tool and an incentive.

As far as reverse mortgages are concerned, we have had a program that has worked very successfully in our State—I think it is going on three years now—basically for elderly people of a certain age under certain incomes with no mortgage existing on the property. They can apply through the Department of Elderly Affairs in the Rhode Island Housing Agency for a so-called reverse annuity. This in effect distributes money back to the elderly who own their home, but are concerned about rising property taxes, maintenance, new roofs, whatever. Now, they have a guaranteed source of cash coming in even though they may not be working.

This is a lien on the property. The use of the money is quite liberal—operating expenses of the home, taxes, pocket money, under certain conditions a reasonable amount for recreation. At the point in time where the property is ultimately disposed of, then the housing agency is paid back the principal that it advanced.

It has been very widely received and is very popular in our State.

Senator PRESSLER. Am I correct in understanding that one could use an IRA or a Keogh in purchasing a home at no immediate cost to the Federal Government? Is that correct?

Mr. MAXWELL. It is just an alternative investment; instead of investing in stocks or gold futures, you invest in your downpayment in your home.

Senator PRESSLER. Assuming somebody was going to put something in an IRA account or a Keogh account anyway, would there be an additional loss of revenue for the government?

Governor DiPRETE. It could be lost revenue if you went one step further to provide an incentive for people to accumulate a downpayment. That \$2,000, \$3,000 or \$4,000, or whatever, on an annualized basis could come off the top of taxable income, and in that sense there would be lost revenue.

Senator PRESSLER. Of course I like to consider a program where people could save to buy their first-time home in something like an IRA. We would have to run numbers on that to see what the cost to the Federal Government would be.

But I think we could save in the long run probably from it.

Mr. MAXWELL. But for the IRA that was going to be opened anyway, it will not add—you are absolutely correct, it will not add to the cost.

Senator PRESSLER. Or loss of revenue by the Government, and I think that is a very good point that we can make. We could be using this resource, couldn't we?

I am told my time has expired. I have a polite little note here. [Laughter.]

Senator CRANSTON. The next one is going to be impolite. [Laughter.]

Senator PRESSLER. I thank the witnesses very much. I think this has been a good exchange.

Senator CRANSTON. Yes, it has been very helpful, Larry. Al.

Senator D'AMATO. Mr. Chairman, let me thank our panelists for coming in. I am going to ask to be excused because I am going to catch a plane back to New York at 12:30 maybe, and I want to express my appreciation for your work, for your testimony, and your diligence, Mr. Chairman.

Governor, I am wondering if I might impose upon you a little further and ask you if you or yourself couldn't provide us with some of the legislation. I think there were three or four legislative proposals that you have pending and a number that you have undertaken as it relates to the prepayment problem and the manner in which you have attempted to address them locally in your State.

I would certainly appreciate that, and I would like to share that information with the people in New York.

Governor DiPRETE. I would be glad to do that. Senator Sullivan from my office, who is here today, heads up our Office of Intergovernmental Relations, which has as one of its prime missions using the powers of the Governor's office to address housing, and we certainly would be glad to share that legislation with you.

Senator D'AMATO. Thank you very much, Mr. Chairman.

Senator CRANSTON. Thank you, Al, very, very much.

I am going to go into a little bit of detail as a prelude to the next question I want to ask.

During our 2-year review of national housing policy, I came to see that the most vibrant legacy of past housing policies was not the programs but the institutions that were created. Programs tend to be rigid, perhaps designed well for one place but not for another or for one set of economic circumstances but not another.

However, institutions with a clear public purpose can mature, innovate, adapt to changing circumstances and endure. I see this demonstrated in institutions such as our secondary mortgage

market agencies, of course, but also national institutions like the neighborhood housing services, State and local institutions like State and local housing finance agencies and community affairs agencies, public housing authorities working often in the most hostile circumstances have often shown the remarkable ability to adapt and find new ways of doing things.

Housing institutions from the private sector, nonprofits and for-profit organizations demonstrate this particularly well. That is why I see creation of the HOME Corporation as the heart of the Cranston-D'Amato bill.

The HOME Corporation would mature, innovate, adapt over time. Its mission would be to strengthen the national system of private and public institutions that can expand our supply of affordable housing.

It would be a one-stop agency for States, localities, and the private sector. It would not require more staff or additional costs over any other approach to a new housing initiative, such as HOP.

Creation of the HOME Corporation would profoundly improve how housing programs are designed. No longer would programs be rigidly locked into law. Instead, Congress would provide a clear shelf of national purpose related to such things as income targeting, leveraging, and accountability, and the HOME Corporation would develop a shelf of specific model programs that could evolve on an ongoing basis as we learn new ways to do things or as circumstances change.

So what I would like to ask now, do you share my view—and I am putting this to any of you, whoever would like to comment first, and then if there is a difference of opinion or an expansion, someone else chime in—do you share my view that creation of such an institution would be a significant improvement in the way the nation provides affordable housing and what new possibilities does it open up for us?

Mr. ROUSE. I think it is very fundamental to this whole concept of flexibility. It does create an entity within HUD which maybe then gives the Secretary the opportunity to do the things that maybe HUD was originally intended to do.

But as institutions go on, they are encumbered by more and more programs, more and more administrative functions, and the Secretary of HUD doesn't have the clear authority and responsibility that is assigned to him under HOME, which is very specific and does give him both the responsibility and the opportunity to administer with a great degree of flexibility many opportunities.

I think it is a great addition, very important part of the act.

Senator CRANSTON. Do you have a comment, David?

Mr. MAXWELL. No.

Senator CRANSTON. What benefits do you see in having the HOME Corporation working with States, localities, and the private sector to develop and refine a shelf of model programs?

Governor DiPRETE. As I understand it, it would provide a streamlined process, if you will, an entity that has both the authority to deliver and can carry out whatever other responsibilities or whatever housing strategies it deems appropriate.

Senator CRANSTON. Some have questioned that need to create a new institution. They ask why we couldn't just get better managers in HUD and perhaps make some refinements in statutes.

What benefits do you see in the creation, specifically, of the new HOME Corporation?

Mr. ROUSE. Well, just the two things I was mentioning a minute ago—benevolent loan funds and community development banks. That opportunity is presented in the HOME Corporation without any designed and defined program by Congress that this is what must be done. But it points to that. It provides the opportunity for the Secretary to promote, to create, to carry forward on that, and so does it with other provisions of the program.

I expect the whole 20 percent competition aspect of HOP is really vested in HOME. I am looking at Don and Grace really, but there is a very good provision that was an improvement on the task force report, that 20 percent of the HOP funds are subject to competition in the manner that UDAG was, and that is administered within HOME.

David, other things may occur to you.

Mr. MAXWELL. Well, there is one thing that does occur to me.

The HOME Corporation would be authorized to guarantee obligations that are issued by State and local housing finance agencies, by Government chartered corporations, including Fannie Mae, and approved financial institutions, and that these obligations would be backed by pools of mortgages on affordable housing under the bill.

So the HOME Corporation could wrap its guarantee, which would carry the full faith and credit of the U.S. Government, around a security that is made up of affordable housing loans that were purchased and pooled by Fannie Mae or another financial institution, or there could be a risk sharing arrangement under which part of the risk would be borne by HOME and part by the private institution like Fannie Mae.

In either case the HOME Corporation would provide credit enhancement that is not available now, making funds available at lower rates than would otherwise be possible and encouraging lending for housing by financial institutions that they might otherwise view as unduly risky. This is another specific way in which this new institution could support affordable housing.

Senator CRANSTON. In the years from 1980 to 1987, we have seen, as we all know, a steady decline in the Nation's homeownership rate. We have a lot of unpleasant statistics on that. It is worse among first-time home buyers where home ownership fell from 61 percent to 53 percent in these 7 years, 8 years.

What do you believe are the primary causes of the declining rate of homeownership?

Governor DiPRETE. In my own State and I think the northeastern part of the country and I guess on both coasts, the strong economy, surge in land prices, surge in labor because of relatively low unemployment certainly has shot up the cost of new construction, and the existing homes are selling at prices substantially increased over prior years and wages are just not keeping up with it.

Mr. ROUSE. In simplest terms, the cost of housing has increased a whole lot faster than incomes, and therefore it becomes harder for people—for a policeman or a teacher or a bank clerk or people who

have good jobs and have what would have been 10 or 15 years very good incomes, but those same jobs cannot today afford the down-payments or the monthly payments.

One of the provisions in the FHA reduction of down payments is an important factor in this, and I listened to Senator—I believe it was Senator Pressler who made the point—I can't remember who did—that this is objected to as endangering the credibility of the FHA insurance program.

But you know, we have been doing this straight along as the amount of mortgage and the cost of housing increased, and I happened to be in the FHA when the program—or went in with the earliest program, which was an 80 percent loan. Anybody would have been horrified at that time. In fact, 80 percent seemed extravagantly high, and then it became 90 percent, 95 percent, and this would be 98 percent. It is 98 percent now on the lower figures in the mortgages.

But this hasn't endangered the FHA program. It gets its insurance premium. The program has been very sound. It hasn't cost the Government a nickel, and that isn't appreciated enough, and therefore to take this next step and increasing costs of housing, still you have got to have a qualified borrower. That will have a big effect on increasing homeownership.

Mr. MAXWELL. I would like to supplement those answers, with which I agree entirely, by reiterating a point that I made earlier about obstacles to affordable housing that are raised in the form of unreasonable zoning restrictions and other burdens on housing that are developing in many communities across the country.

I don't mean to suggest that environmental protections aren't absolutely essential and all the rest, but there is no question that the fact that these barriers to affordable housing which are built in many communities, this pulling the ladder up and I'm "OK, Jack" attitude, is very contributive to the higher cost of housing. I would hope under the HOME Corporation concept and the requirement of the submission of plans by States and localities that there would be an emphasis on seeing how these barriers could be broken down because I believe that that would contribute to lowering the cost of housing in many places.

Senator CRANSTON. The National Affordable Housing Act would lower the FHA minimum down payment requirement and would make FHA mortgage ceilings reflect regional differences in housing prices.

Do you see any adverse consequences along with what we think would be the benefits?

Governor DiPRETE. I think if there were adverse consequences, Senator, they would be greatly outweighed by the benefits that would be derived.

As I think all of the speakers have said today, probably in any of these initiatives we are taking risks. We know that, but I don't think that we make any progress in this world unless we do take risks, and if the risk is reasonable—we know in advance that there are going to be a limited number of defaults—there is an FHA insurance premium intended to cover such defaults, and by and large the benefits to a large number of people, in my opinion, outweigh whatever shortcomings there may be.

Mr. ROUSE. That risk is being revealed today in cities that are in severe economic difficulty, like Houston and Dallas, where without any 93 percent loans, with loans at much lower rates, people are walking away from their houses and allowing them to be foreclosed because what has happened in the real estate market is such that the value of that house has gone down so far that they can't justify continuing to make mortgage payments and they don't.

That in its own right is kind of a new sense of values, but whether it is 93 or 95 percent I don't think is going to have any substantial impact. I think if we went into a national depression there would be difficulty on the 90 percent, 95, 98 percent loan, but I think it is the right thing to do.

As David said earlier, it is what the FHA was set up to do.

Senator CRANSTON. Jim, I would like to direct a couple of questions to you.

You have been an effective advocate for expanding the ability of nonprofit organizations to provide affordable housing. Some have cautioned that the nonprofit sector will at best be able to provide only a small share of the affordable housing that the country needs.

One purpose of our bill is to expand the capacity of nonprofits in housing through a 10 percent set-aside of funds and capacity development.

What is the long-term potential for nonprofits to develop and manage affordable housing?

Mr. ROUSE. Enormous. These organizations are becoming increasingly sophisticated, better staffed, remarkable people. There are career objectives for people that want to do just as a Peace Corps mentality.

We are financing in New York 1,000 units by 18 neighborhood groups, and we took a tour of some of those groups recently, and here were bright, bright people who had been in these jobs for 10, 12, 13 years. They could be doing a lot of other things, and their staff is enormously capable of developing and supervising design, construction, and management of these projects.

They are capable people, as capable as I have seen anywhere in the housing or real estate development field, and that is a growing capacity. I think that they are going to need financial help. They are finding increasing ways to be resourceful, but whether they are a small part or a large part will depend entirely upon what the availability of funds is.

I have heard that in Boston today more housing is built by nonprofit organizations than there are by for-profit developers. I don't agree that it is necessarily a small part of the housing need. I think a very substantial part of the housing need can be met through this unfolding process. Although there are some people who have been in it for 10 or 15 years, for the large part it is relatively new. But it is backed by good people. It is backed by churches, it is backed by civic organizations.

In Columbus, OH, where we are working, the nonprofit organization was set up, a combination of local realtors and the churches. Very effective, doing a tremendous job.

At Chattanooga, it was set up by the business community, the mayor, the city government. They are doing big work. They did

over 500 dwellings in the first year in Chattanooga. Their stated objective is to see that all housing in Chattanooga is occupied by very poor people within 10 years.

Nobody has undertaken this kind of thing. This is the kind of determination borne of compassion and justice, determination that is motivating these organizations, and on the whole I think it is a more fierce motivation than profits alone.

Senator CRANSTON. That is a very encouraging and, again, I think inspiring comment.

How would enactment of the bill help nonprofits? The specifics. How would this help nonprofits do more than they can now do and could the bill be improved in any way on that front?

Mr. ROUSE. Well, the whole philosophy of making these funds available to local communities with discretion as to how they use it means that they are going to be looking at the most productive, resourceful, efficient way of using the funds.

A lot of this requires small work, little working on neighborhoods, small groups. It is not something that is attractive to the private for-profit market. As a matter of fact, housing for low income people, by and large—not by and large—is not a profitable undertaking, and therefore there can be profits in it. A contractor can make some money working with a nonprofit group, but this is drawing into the action that aspect of our society that is most capable of working without a profit, and this way of distributing funds to the local community rather than big programs that require building 100, 200, 300, 500 units at one time, which they are not capable of grabbing hold of, will stimulate that.

And then of course there is the specific provision that—what percent—20 percent—10 percent—yes, 10 percent of the funds must go to nonprofits. I think a lot more than that will go. I don't think that 10 percent limit will occur except maybe in some particularized jurisdictions.

Senator CRANSTON. How can national and regional organizations with assistance from the HOME Corporation build the capacity of nonprofits in areas where they are now particularly weak?

Mr. ROUSE. Well, there is provision in the HOME Corporation for contracts with just such organizations to undertake training development programs to increase the capacity. A lot of what is in the HOME Corporation, I believe Don and Grace would say—and I looked to them as the manufacturers of a good deal of this product—that we propose the creation of a separate corporation, non-governmental. What was it called? HOCA.

HOCA, what does that stand for? [Laughter.]

Mr. MAXWELL. Don't ask me.

Mr. ROUSE. Housing Opportunity Corporation.

Mr. MAXWELL. It is not the plural of "hokum." [Laughter.]

Mr. ROUSE. Its role was to pursue across the country the advocacy of this kind of organization and also the professional technical assistance to show them how to come into being, how to do the things that we try to do in the Enterprise Foundation, how to acquire, how to rehabilitate at lowest possible cost, how to finance at lowest possible cost.

It was to expand that effort, and I think in a very real sense that opportunity to do that through HUD has been deposited in the

HOME Corporation and that with the vigor of Jack Kemp I expect it will be used.

Senator CRANSTON. I would like to address just a few more questions to whoever chooses to answer.

The distribution of housing opportunity partnership funds has been quite hotly debated. Currently, the bill allocates half the funds to states and half to eligible localities.

Three questions on: the allocation of HOP funds and the relationship between the States and localities and the operation of the program.

First, what is the most appropriate division of HOP funds between States and localities, and why?

Governor DiPRETE. I don't know the particular numbers, Senator, but I think in most areas the State should be the primary funneling point for these funds. As I said earlier—and I know that there are exceptions in very large metropolitan areas and I am sure the thinking is different, but I think most Governors would tell you that in solving housing problems people look to the Statehouse, look to the Governor's office, look to the general assembly, and I feel that if we are going to have that kind of responsibility—and the Governors around the country have indicated they are perfectly willing to deal with the problem—we look at it as a partnership with the Federal Government and the local communities.

But I think the State administrations and State governments do see the big picture, do recognize the priorities that exist within a given State and can make decisions on allocation of funds from a statewide point of view rather than a broker point of view.

Senator CRANSTON. Any difference of opinion on that?

Mr. ROUSE. There were very few things that occupied more time and discussion by the task force than that one, and I have no disagreement with the Governor, especially from where he sits.

But there are a lot of States which don't have Governors like Rhode Island, and there were two state housing commissioners on the task force. There was a strong advocacy by many, many people that cities should get the largest deficits because they could be totally blocked in some States by having to go through the State, and there were equally vigorous arguments along the line of the Governor, and the division was 50/50, that 50 percent of the funds should go to the State and 50 percent to the cities.

There are detailed provisions of that in the task force. Most of the State money would have to be allocated to the city in the end, anyway, as the functioning entity.

But I don't think there was any huge wisdom in that. I think it was a solution that was arrived at after hearing these various viewpoints.

So there are a lot of people who would agree with the Governor.

Senator CRANSTON. What are the main factors in deciding how the division ought to be made between States and localities?

Mr. ROUSE. I think the main issue is right on what the Governor said. Where there is an effective State government that is on top of it and knows the conditions in the cities and towns in the State, it is apt to have a stronger, more professional organization in its housing or housing finance organization.

On the other hand, there are many States in which the cities are in that position. They have the real professionals, and they know the need, where the State housing agencies are meager. They administer special programs that come along, but they are not as equipped as clearly Rhode Island is to—or as Massachusetts is to make that distribution, and therefore the attitude was that we didn't want to see that opportunity in the cities inhibited by States that were not equipped to do it.

Senator CRANSTON. Did the act require any cooperation specifically between States and localities?

Mr. ROUSE. I cannot recollect. I don't know how we could.

Senator CRANSTON. No suggestions on that front?

Mr. MAXWELL. Well, the submission of the plan for meeting housing needs should, I think, embrace the idea of how the States and localities will work together to meet those needs.

Mr. ROUSE. That is a very important provision.

Governor DiPRETE. Go ahead.

Mr. ROUSE. The requirement that—the freedom with which this money is released by the Federal Government is new, with no program, and fundamental to that is that the localities must submit a 5-year program of what the need is, of what they intend to do about it, and therefore the money is advanced with that 5-year plan and program being on the table, and that will be monitored, and there will be follow-up by HUD and by the States and by citizen groups that complain that, damn it, the money hasn't been used the way it was intended to be. It was clearly intended by the task force that this became an instrument in the hands of the people to raise Cain about the city failing to do what it is supposed to do under its plan.

There is a big democratization in the process of housing in this legislation.

Governor DiPRETE. I think the bill would also provide an opportunity to address some of the very legitimate concerns raised by Mr. Maxwell earlier.

How do we get communities to address the affordable housing issue, whether they have enacted so-called snob zoning regulations or just don't care to get involved in people who might be considered looking for so-called affordable housing or lower scale housing?

There is the opportunity for the States to have leverage and put teeth into the mechanism for the distribution of funds by requiring communities to adhere to certain standards or they don't share part of the pie.

Senator CRANSTON. The matching funds required of States and localities for participation in the housing opportunity partnership program not only adds to the available capital for construction rehab and acquisition, but it demonstrates the commitment to affordable housing.

However, some States and localities are contending that the matching requirement is too great a burden. It will undermine participation.

How do you think the 25 percent matching requirement in the bill will affect the ability of States and localities to participate?

David or Governor, do you want to comment on that one?

Mr. ROUSE. You are the one who has to do it.

Governor DiPRETE. As I understand it, the match, first of all, could include cash contributions, administrative costs up to 7 percent, HOP funds, foregone fees, contributions of land. I don't see any of those being insurmountable, and certainly where States have had the initiative to come up with their own kinds of assistance programs, be it the rent subsidy program or helping people to come up with a down payment or the closing costs, I think those are legitimate mechanisms for coming up with the match, and I think there is incentives to come up with results. I don't see that as a problem at all.

Mr. ROUSE. It also can compel private developers, private builders to put money in to get that program, and I think it is minimal that again a part of this is to see to it that the Federal Government isn't putting up all of the money and calling all of the plays of the game.

If it is going to be pushed down and this kind of flexibility and freedom allowed, then, by gosh, the cities and States ought to participate and they may have to get it from beyond government sources. They may have to add new tax programs to produce the money to perform, and that is happening around the country. There are new tax programs.

Governor DiPRETE. I agree with that.

Mr. ROUSE. And it is important to balance the effort.

Mr. MAXWELL. The task force report called for matching. It was a subject that we considered carefully, and we are pleased that the legislation tracks our recommendation.

Senator CRANSTON. The final question I want to put to you is a much broader one.

We have a long way to go before we get an effective new housing policy enacted into law and supported by adequate appropriations. We have to get a good bill passed by both Houses of Congress, signed by the President. We have to achieve a difficult change in priorities budgetwise. We have to cram whatever we are going to get into a difficult deficit budget situation. We have to enact a change in the tax policy on another committee that is sensitive to the need for affordable housing.

The task can only be accomplished, rather obviously, if all of the major groups work together and push very, very hard and wisely.

We need the Governors, the mayors, the housing industry, the low income housing advocates, and everybody else who cares about affordable housing.

Do you have—we have a lot of support already, as you know. A good many organizations have been involved in the process. Many organizations are supportive.

Do you have any specific thoughts to express as to more steps we need to take together to build the momentum and the force strength and support we need to achieve our goal?

Governor DiPRETE. From a governmental point of view, I know the National Governors' Association has formally adopted, I believe on a unanimous basis, a housing policy espousing cooperation with the Federal Government along the lines that we have discussed here today, and I think certainly the Governors of the 50 States are very much on board in supporting these programs and urging passage of this kind of legislation.

I would suspect that if I were a public official at any level—and I have served as mayor and on the city council—but I suspect other people dealing on a day-to-day basis in city or town government would be remiss in not coming forward to support this kind of legislation.

It is going to take leadership from the top in their individual states and cities.

Senator CRANSTON. Whatever you can do to help with Governors, particularly, we would deeply appreciate it.

Mr. ROUSE. The danger is that there is no fight going on. When there was a fight between the public and private forces, why, everybody was before you fighting. Now, everybody is in agreement and there is such broad agreement that there is no apparent enemy.

Maybe you ought to let a few balloons go up saying the legislation is in danger. [Laughter.]

But that is a danger, that you may not—that the forces may not come out with——

Senator CRANSTON. Let's get this bill enacted and then make the fight over the money. [Laughter.]

Mr. MAXWELL. I think that there has been immense and heartening progress in building the coalition that is necessary to get the legislation through and all of us need to just keep working on that to the extent that we can. I think the process, Mr. Chairman, that you are going to be pursuing now, the type of hearings that you are going to be holding, that will continue to build and extend this momentum.

Senator CRANSTON. Well, this has been a very fine opening hearing. The three of you have contributed a great deal. I deeply appreciate your testimony. The committee appreciates it. The country and those who need housing will appreciate it.

We will have further hearings and expect to get a lot more advice.

Thank you all very much, and we stand adjourned.

[Whereupon, at 12:22 p.m., the subcommittee was adjourned.]

[Additional material supplied for the record follows:]

STATEMENT RESPECTFULLY SUBMITTED FOR THE RECORD

TO THE SENATE SUBCOMMITTEE ON HOUSING AND URBAN AFFAIRS
THE HONORABLE ALAN CRANSTON, CHAIRMAN
ON THE NATIONAL AFFORDABLE HOUSING ACT

ISSUE: MANAGEMENT CONSULTATION PROPOSAL
 for
 SELF-MANAGED, SECTION 202 HOUSING PROJECTS for HANDICAPPED PERSONS

Presented by:

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INTRODUCTION

Randy L. Speaker has had eleven (11) years of experience in the development and management of housing for various disability groups in the midwest. While most of the projects have been financed through the Section 202 Direct Loan Program, some have utilized funds from the Farmers Home Administration tax-exempt bonds, conventional mortgage markets, and private syndication. He is currently leading innovative efforts to assist federal government agencies such as HUD, VA, FSLIC, and FannieMae transpose, unoccupied, repossessed and "troubled" property back into useful elements of the single and multi-family housing stock.

The attached concept paper represents an idea that will save considerable future tax dollars by reducing the risk of foreclosures among Section 202 projects for handicapped persons. If the subcommittee considers the saving of future tax dollars as one of its goals, I strongly suggest that the attached concept paper be seriously considered in the evaluation and formation of Senate Bills 565 and 566 of the "National Affordable Housing Act".

OBJECTIVE

The object of this proposal is to create an alternative management mechanism for use when a not-for-profit Sponsor desires to self-manage their project yet may not possess all of the required skills. Although this is intended to address housing for handicapped persons under the Section 202 Direct Loan Program, parts of this concept could conceivably be utilized in some elderly or family projects where self-management is desirable. One area of adjustment that would need to be made is the total management fee that would be allowed as a mortgage expense. As this concept is applied to larger elderly or family projects, the fees based on percentages would need to be lowered due to economies of scale enjoyed by larger projects.

UNIQUENESS

Over the past several years, housing for handicapped persons has evolved into a complex mixture of housing types serving tenants with varying needs for support services. Its complexity is further amplified by regional differences in the philosophies and methods of providing support services. Also, it has been found that the needs of the tenants change as they move toward greater independence. Consequently, housing for handicapped persons has recently received recognition not only because of its physical uniqueness from elderly and family housing, but also because of the internal programmatic differences that are necessary to successfully house various disabled populations. This uniqueness first emerged in the development stages of the HUD housing continuum. However, the real test lies ahead for management since this discipline will be responsible for the long term success of this type of housing as it matures.

SELF-MANAGEMENT

One trend in management of housing for handicapped persons is that many of the not-for-profit Sponsors desire to self-manage the projects they helped develop.

This is logical since a strong tie between the housing structures and the support service component is required. Unlike elderly and family housing projects, most of the support services are usually provided by a sole source - the Sponsor. This Sponsor is usually confined to geographic catchment areas by the funding source of the service component. In most cases, the not-for-profit Sponsors have already acquired some of the necessary skills to self-manage their project since they have already been providing these services in alternative housing. However, there is an increasing number of problems concerning the commingling of project funds and support service funds in self-managed projects. While it may not be intentional, the Sponsors make the best effort they can with what expertise they have at their disposal. Some of the other universal areas where Sponsors seem to lack sufficient expertise include: HUD procedures, HUD forms, budget forecasting, budget compliance and the creation and utilization of preventive maintenance plans.

PROFESSIONAL MANAGEMENT

There are several problems facing a Sponsor when they contemplate using a professional management organization to manage their housing project. First, most projects are small thus making the profit potential unattractive to most management companies that understand HUD requirements and procedures. Second, most professional management companies do not possess the specific expertise required to interact with certain types of residents as they would normally with elderly or family residents. This can cause severe programmatic problems with certain handicapped populations. Consequently, the management agent relationship that works for elderly and family housing projects will not necessarily work when applied to housing for handicapped persons. Instead a hybrid form of arrangement is necessary. Some Sponsors do not have at their disposal professional management organizations that are willing to operate within the confines of this hybrid type of management arrangement, especially at the fees currently allowed.

MAXIMUM FEES

When the development section of HUD realized the value of consultants in the development process of smaller projects for the handicapped, they increased the allowable fee that could be paid out of the mortgage proceeds by two and one-half times the percentage previously allowed (2% to 5%). This helped to insure that during the development phase the projects had the proper expertise at their disposal. The Loan Management sections of HUD will hopefully understand that the small number of units create reverse economies of scale and that using elderly and family criteria to determine management fees will not insure that the necessary expertise is available throughout the life of the project. It should also be pointed out that this type of management entails more work than elderly or family projects. An example of this would be the increased amount of moves within a project and the turnover rates that are high due to required programmatic reasons not found in other types of projects. A comparable adjustment would indicate that a total management fee for small projects for handicapped persons should be 10% to 12% for the first year and 8% to 10% for future years. As with other HUD projects this would be based on gross rents collected and be in addition to the bookkeeping fee allowed if records are kept off-site. This would be the ceiling whether a Sponsor self managed entirely by themselves or utilized a management consultant to assist in some of the management activities.

MANAGEMENT CONSULTATION MENU OF SERVICES

The best way to combine the skills of a professional management firm and a not-for-profit Sponsor who wishes to self manage would be to create a consultation relationship similar to what is allowed in the development process of the Section 202 Direct Loan Program. In this case, the Sponsor would be the managing agent of record and could hire a professional management firm to assist them with the areas in which they felt they did not have sufficient expertise. The Sponsor would be able to select from a "menu" of services which would be itemized as to responsibility and cost. The project would pay for the consultation as long as

it adhered to the prescribed guidelines. This would allow HUD to suggest to struggling Sponsors a method to address certain items that need attention in "troubled" projects while also providing HUD with a monitoring mechanism to control project costs. The "menu" of management services and their percentage allocation would be as follows:

Interpretation of HUD Regulations		15%
Bookkeeping		20%
General Ledger		
Rent Collection		
Disbursement of Expenditures		
HUD Forms		25%
Tenant Eligibility - 50059		
HAP Voucher		
Establishing Net Income		
Utilization Report		
Budget		
Preparation	10%	
Compliance	<u>5%</u>	
		15%
Audit Supervision		5%
Project Inspections		5%
Training of Support Service Personnel		10%
Coordination of Computerization		<u>5%</u>
TOTAL		100%

There would be four (4) instances upon which a Sponsor could utilize management consultation services. During PHASE 1, a structure similar to the existing treatment of the supplemental management fund would be utilized. In the other PHASES, the "Menu of Management Consultation Services" would apply. These PHASES are as follows:

Initial Marketing & Rent-up (PHASE 1)

This would allow the Sponsor to obtain assistance at the Conditional and Firm processing stages with items such as "Affirmative Fair Housing Marketing Plans", selection of items to be paid for out of the Contingency account, formation of tenant selection and unit assignment procedures, management entity profiles, management agent certifications and determining positions to be charged against the project account. During rent-up, the Sponsor could receive assistance with establishing the project accounts, establishing proper financial tracking procedures, hiring and training of on-site staff, coordination of support services, tenant eligibility processing, coordinating move-ins and vendor relations. The range of fees for these services should be between \$150 to \$250 per unit. It would be a one time fee paid similar to how the supplemental management fee is currently earned. The per unit cost would be higher than elderly projects because most projects for handicapped persons have fewer units yet have as much if not more work to perform because of the increased importance of the support services.

First Year of Operations (PHASE 2)

The first year of operations is probably the most important as this is when most procedures will be established and meshed with the support service component. The previous listing of the categorical percentage breakdown of the areas of assistance that could be offered

to Sponsors that want to self-manage their projects would apply. The amount allowed to be paid to the consultant would be commensurate with the management functions of which the Sponsor received assistance. If the Sponsor performed certain functions, they would receive the appropriate percentage of the total allowable management fee. The total management fee allowed as a project expense would be between 10% and 12% of gross rents collected.

On-Going Management Assistance (PHASE 3)

Like Phase 2, Phase 3 would utilize the percentage breakdown of management responsibilities. However, HUD would require that the Sponsor perform at least 25% of the management functions without assistance from a consultant. Also, the total fee paid as a project expense would be reduced in the second year and beyond to 8% to 10% of gross rents collected.

Special Assistance (PHASE 4)

Occasionally, the Sponsor's project staff will need short term training due to staff turnover. This is found to happen more frequently with Sponsors who develop housing for the handicapped than with elderly or family projects. Also, some projects will be mismanaged or be affected by outside influences which may create a need for some special treatment during a turn-around period. These "troubled" projects may need services for 6 to 18 months. Projects which simply have staff turnover would only need the consultation services for 6 months. In each case the local HUD office would need to provide prior approval on a per case basis.

CONCLUSION

It is sincerely hoped that the Loan Management section of HUD will attempt to address some of the unique problems associated with the management of housing for the handicapped before these problems drastically affect the financial viability of these worthwhile housing alternatives. Unfortunately, this writing was inspired by the Inspector General's findings of a current Section 202 housing project which is close to financial ruin due to mismanagement and the lack of professional management expertise available to the self-managing Sponsor. As the popularity and funding of housing for the handicapped continues to increase, the management problems will only continue to multiply and lead to defaults and foreclosures until HUD's Loan Management section takes the lead in addressing the unique needs of this type of housing.